



State of Tennessee
Health Services and Development Agency

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Date: April 11, 2018

To: HSDA Members

From: Melanie M. Hill, Executive Director

Re: CONSENT CALENDAR JUSTIFICATION

Open Arms Care Corporation d/b/a Shelby County #7, Memphis (Shelby County), TN – CN1802-010

The relocation and replacement of an 8-bed ICF/IID home from 4695 Allendale Drive to an unaddressed 1.2 acre parcel lot between parcels with street addresses of 7751 Reese Road and 7781 Reese Road, Memphis (Shelby County), TN 38133. The 1.2 acre lot is the western lot of a 2.4 acre parcel described as Parcels 095400 00624 and 095400 00625 in the records of the Shelby County Tax Assessor. The applicant is owned by Open Arms Care Corporation. The estimated project cost is \$3,370,000.

As permitted by Statute and further explained by Agency Rule later in this memo, I have placed this application on the Consent Calendar based upon my determination that the application appears to meet the established criteria for granting a Certificate of Need.

Need, Economic Feasibility, Health Care that Meets Appropriate Quality Standards, and Contribution to the Orderly Development of Health Care appear to have been demonstrated as detailed below. If Agency Members determine the criteria have been met, a member may move to approve the application by adopting the criteria set forth in this justification or develop another motion for approval that addresses each of the criteria required for approval of a Certificate of Need.

If you find one or more of the criteria have not been met, then a motion to deny is in order.

At the time the application entered the review cycle, it was not opposed. If the application is opposed prior to it being heard, it will be moved to the bottom of the regular agenda and the applicant will make a full presentation.

Summary

Open Arms Care Corporation d/b/a Shelby County #7, Memphis is an existing 8-bed intellectual disability institutional habilitation facility certified for Medicaid participation as an Intermediate Care Facility for Individuals with Intellectual Disabilities (ICF/IID). Since a Certificate of Need is site-specific, Open Arms must receive approval prior to relocating the facility from its present location to another site in Memphis, a distance of 14.3 miles or about 19 minutes.

Open Arms has also filed four other applications to be heard this month that propose to relocate existing ICF/IIDs from older facilities to newly constructed facilities in more desirable locations—CN1801-004, 1802-007-009. This facility will be built in a single family home style with 4 semi-private bedrooms, 2 ½ baths and ample living, dining and staff-related space. This facility will be constructed on the western portion of a 2.4 acre parcel with CN1802-009, Shelby County #8 on the eastern portion. The difference between the single family homes and the duplex style is that the single family style will serve the needs of the less medically complex ICF/IID population.

The facility is and will continue to be managed by Integra Resources, LLC, who manages all other Open Arms facilities. It will be leased from Facilities Development Group (FDG) who will obtain a loan from ServisFirst Bank and use the applicant's lease payments to repay the loan.

The estimated project cost for the 4,400 square foot facility is \$3,370,000 per HSDA rules. It is based upon an annual lease cost of \$110,000 for 30 years. The applicant notes the actual cost will be less based upon the Option to Lease terms which refers to the average annual rent over the 30-year term rather than a guarantee with respect to any year's specific rental amount. It notes the rent will be on a declining balance rather than an equal amortization to correspond with the FDG's anticipated financing, which will also be a declining balance (see page 27 of the original application). Occupancy is projected to be over 99% with per diem rates set by the Comptroller's Office based upon the facility's annual cost report. The cost reports lists expenditures related to patient care and administration that are eligible for Medicaid reimbursement.

The need for this relocation is three-fold—increasing acuity levels of existing residents and new admissions, the desire for a less commercialized neighborhood, and the need to meet impending changes to the life safety code. A facility constructed almost 30 years ago to provide ICF/IID care does not provide the additional space needed for supportive equipment or the additional staff needed to provide care for this population. The neighborhood which has grown more commercialized over the years is no longer desirable for this type home. The applicant also notes impending changes to the life safety codes which require upgrades to sprinklers, alarms and electrical systems. Rather than to try to retrofit a 30-year old facility that lacks adequate space for the care needs of the residents in a commercialized neighborhood, the applicant finds it more prudent to relocate.

Open Arms operates 41 facilities (both 8- and 4-bed) across Tennessee in Davidson, Greene, Hamilton, Knox, and Shelby Counties. It provides care for one third of the state's most medically fragile ICF/IID

population and has done so for almost 30 years (since 1990). As an experienced provider, it meets both state and federal rules and regulations and adheres to the Tennessee Department of Intellectual and Developmental Disabilities (TDIDD or Department) Protection from Harm System which requires reporting all allegations of abuse, neglect, and exploitation.

Please refer to the application, staff summary, and TDIDD report for a detailed narrative.

Executive Director Justification -

I recommend approval of CN1802—010, Open Arms/Shelby County #7, for the relocation of an 8 bed ICF/IID home in Memphis based upon my belief the general criteria for a Certificate of Need have been met as follows:

Need- Need is met, as this will transition eight residents from a 30-year old facility in an increasingly commercialized neighborhood to a new facility which will be constructed to meet current life safety codes and designed with floorplans, technologies and materials to meet higher acuity levels. Relocation rather than renovation is the much better option.

Economic Feasibility- The project is economically feasible based upon a lease agreement between Facilities Development Group (FDG) who will obtain a loan to construct the facility and lease it to Open Arms. The State of Tennessee through the Medicaid program is the primary payor for the program with rates set by the Comptroller's Office based upon the facility's cost report. Revenue payor mix is projected to be 96% TennCare and 4% Supplemental Security Income (SSI). The facility has and is projected to continue to enjoy occupancy rates over 99%.

Health Care that Meets Appropriate Quality Standards- As a long-standing provider of ICF/IID services in Tennessee, Open Arms has a proven track record of providing services that meet appropriate quality standards. It is familiar with both state and federal regulations as well the TDIDD Protection from Harm System and is in good standing with all regulatory requirements.

Contribution to the Orderly Development of Health Care-Orderly development is met as Open Arms has existing contractual relationships with both TennCare and the Department, and a broad understanding of both the intellectual disability population and the intellectual disability system in Tennessee. This does not duplicate existing services; it simply relocates them to a newly constructed facility that will better meet the accessibility needs of residents.

Statutory Citation -TCA 68-11-1608. Review of applications -- Report

(d) The executive director may establish a date of less than sixty (60) days for reports on applications that are to be considered for a consent or emergency calendar established in accordance with agency rule. Any such rule shall provide that, in order to qualify for the consent calendar, an application must not be opposed by any person with legal standing to oppose and the application must appear to meet the established criteria for the issuance of a certificate of need. If opposition is stated in writing prior to

the application being formally considered by the agency, it shall be taken off the consent calendar and placed on the next regular agenda, unless waived by the parties.

Rules of the Health Services and Development Agency-- 0720-10-.04 CONSENT CALENDAR.

- (1) Each meeting's agenda will be available for both a consent calendar and a regular calendar.
- (2) In order to be placed on the consent calendar, the application must not be opposed by anyone having legal standing to oppose the application, and the executive director must determine that the application appears to meet the established criteria for granting a certificate of need. Public notice of all applications intended to be placed on the consent calendar will be given.
- (3) As to all applications which are placed on the consent calendar, the reviewing agency shall file its official report with The Agency within thirty (30) days of the beginning of the applicable review cycle.
- (4) If opposition by anyone having legal standing to oppose the application is stated in writing prior to the application being formally considered by The Agency, it will be taken off the consent calendar and placed on the next regular agenda. Any member of The Agency may state opposition to the application being heard on the consent calendar, and if reasonable grounds for such opposition are given, the application will be removed from the consent calendar and placed on the next regular agenda.
 - (a) For purposes of this rule, the "next regular agenda" means the next regular calendar to be considered at the same meeting.
- (5) Any application which remains on the consent calendar will be individually considered and voted upon by The Agency.

Authority: T.C.A. §§ 4-5-201, et seq., 4-5-202, 68-11-1605, 68-11-1606, 68-11-1608, and 2016 Tenn. Pub. Acts Ch. 1043. **Administrative History:** Original rule filed August 31, 2005; effective November 14, 2005. Rule was previously numbered 0720-10-.05, but was renumbered 0720-10-.04 with the deletion of the original rule 0720-10-.02 filed October 24, 2017; effective January 22, 2018. Amendments filed October 24, 2017; effective January 22, 2018.

HEALTH SERVICES AND DEVELOPMENT AGENCY MEETING

APRIL 25, 2018

APPLICATION SUMMARY

NAME OF PROJECT: Open Arms Care Corporation d/b/a Shelby County #7

PROJECT NUMBER: CN1802-010

ADDRESS: Unaddressed 1.2 acre lot between the street addresses of 7751 Reese Road and 7781 Reese Road
Memphis, (Shelby County), Tennessee 38133

LEGAL OWNER: Open Arms Care Corporation
6 Cadillac Drive, Suite 350
Brentwood, TN (Williamson County), TN 37027

OPERATING ENTITY: Integra Resources, LLC
1222 16th Avenue South, Suite 300
Nashville, TN 37212

CONTACT PERSON: Michael D. Brent, Attorney
(615) 252-2361

DATE FILED: February 12, 2018

PROJECT COST: \$3,370,000

FINANCING: Lease Arrangement

REASON FOR FILING: The relocation of an 8-bed Intermediate Care Facility for Individuals with Intellectual Disabilities (ICF/IID). *The 8 beds are not subject to the 160 bed ICF/IID Bed Pool.*

DESCRIPTION:

Open Arms Corporation is seeking *Consent Calendar* approval to relocate an 8 - bed Intermediate Care home for Individuals with Intellectual Disabilities (ICF/IID) 14.3 miles from 4695 Allendale Drive, Memphis (Shelby County), TN to an unaddressed 1.2 acre lot between parcels with the street addresses of 7751

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Reese Road and 7781 Reese Road, Memphis (Shelby County), TN 38133. The 1.2 acre lot is the western lot of a 2.4 acre parcel. If approved, Open Arms Corporation will transition 8 individuals currently residing and receiving ICF/IID services to the newly constructed ICF/IID home.

Open Arms Care Corporation is a Georgia non-profit corporation formed in 1986. As a licensed and Medicaid-certified ICF/IID provider, Open Arms has provided care for individuals in Tennessee requiring ICF/IID services since 1990. Currently, it operates 41 eight (8) or (4) bed resident group homes and 5 day treatment centers in multiple counties across Tennessee.

ICF/IIDs are intended to provide individuals with intellectual disabilities individualized health care and rehabilitation to promote their functional status and independence. All Open Arms residential group homes in Tennessee are managed by Integra Resources, LLC, who will also manage the proposed facility in this project. Integra will be responsible for the provision of nursing care, support services, and therapy services including physical, occupational, speech, and nutritional therapy services.

SERVICE SPECIFIC CRITERIA AND STANDARD REVIEW

CONSTRUCTION, RENOVATION, EXPANSION, AND REPLACEMENT OF HEALTH CARE INSTITUTIONS

- 1. For relocation or replacement of an existing licensed health care institution:**
 - a. The applicant should provide plans which include costs for both renovation and relocation, demonstrating the strengths and weaknesses of each alternative**

Renovation was not deemed a reasonable alternative due to the extensive costs to meet new fire-safety regulations.

It appears that this criterion has been met.

- b. The applicant should demonstrate that there is an acceptable existing or projected future demand for the proposed project.**

Bed occupancy has averaged 99.5% for the past three years. The applicant projects occupancy at 99.7% in Year 1 (2019) and 99.2% in Year 2 (2020). It appears that this criterion has been met.

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STAFF SUMMARY

Note to Agency members: This staff summary is a synopsis of the original application and supplemental responses submitted by the applicant. Any HSDA Staff comments will be presented as a "Note to Agency members" in bold italics.

Application Synopsis

As mentioned earlier, the applicant proposes to relocate an 8 bed Intermediate Care home for Individuals with Intellectual Disabilities (ICF/IID) 14.3 miles from 4695 Allendale Drive, Memphis (Shelby County), TN to an unaddressed 1.2 acre lot between parcels with the street addresses of 7751 Reese Road and 7781 Reese Road in Memphis, TN. Open Arms residential group home ICF/IID beds are designed to provide long term residential supports to individuals with intellectual and developmental disabilities. ICF/IIDs provide comprehensive and individualized health care and rehabilitation services to promote the functional status and independence of individuals with intellectual disabilities.

These individuals have developmental disabilities and complex medical needs, which may include tracheotomy care, tube feeding, oxygen administration, insulin injections, medication administration, and daily medical assessment. The age range of the men and women with developmental disabilities who need ICF/IID services is 18-70. Open Arms employs nursing staff and contracts with physical therapists, occupational therapists, and speech language pathologists to provide medical services. The following chart displays the availability of essential services to residents of the proposed project.

Service	Closest Location	Driving Distance	Driving Time
Nearest Incorporated City	Bartlett, TN	Facility is within city limits	Not applicable
Hospital	St. Francis Hospital- Bartlett	0.8 miles	2 minutes
Physician Offices	Locations varies but all are close to St. Francis Bartlett Hospital	Varies	Varies
EMS/Fire Station	Memphis Fire Station No. 59, 2870 Rockcreek Road, Cordova, TN	0.5 miles	1 minutes
Day Treatment (if applicable)	Open Arms Care 5120 Yale Road Memphis, TN 38134	6.5 miles	14 minutes

Source: CN1802-010

The target date for completion of the project is May 2019.

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Facility Information

- The facility will be a newly constructed 4,400 square foot, one story fully accessible home on a 1.2 acre lot.
- The home will consist of a living/sitting area, therapy area, kitchen, laundry room, four semi-private bed rooms, 2 1/2 bathrooms, office, medication room, screened porch, covered walkway, and garage.
- A backup generator will be available on-site to ensure essential resident services are not interrupted by unexpected power outages.
- An October 9, 2017 letter from Dave Johnson, AIA, Principal, STG Design, attests to the estimated construction cost of the proposed 8 bed home and conformance with all applicable building and safety codes, including design of the facility in accordance with current AIA Guidelines for Design and Construction of Health Care Facilities.

Ownership

- Open Arms Care Corporation is a Georgia non-profit corporation formed in December 1986. Open Arms is licensed by DIDD to provide Medical Residential and Supported Living and licensed day treatment center services throughout Tennessee.
- Formerly known as the Rebound Care Corporation prior to calendar year 2000, Open Arms has 41 eight (8) or four (4) bed ICF/IID facilities or licensed residential institutional habilitation facilities (residential group homes) with locations in Shelby, Davidson, Hamilton, Greene, and Knox Counties. Open Arms also operates 5 licensed day treatment centers in Tennessee.
- Open Arms will be the licensed operator of the proposed 8-bed ICF/IID residential group home with day-to-day management to be contracted with Integra Resources, LLC, the manager of all existing Open Arms licensed facilities in TN.
- Facility Development Group, Inc. (FDG) will purchase the land and construct the proposed 8-bed ICF/IID residential group home for the project and Open Arms will lease the facility and land from FDG for a 30 year term.
- Documentation of the applicant's legal interest in the site is provided in the February 1, 2018 Option to Lease agreement between FDG, Inc. and Open Arms Care Corporation.
- A visual/chart showing the key phases of the development arrangement between the parties is provided in the draft to Lease agreement between FDG and Open Arms Care Corporation.

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NEED

Project Need

The applicant provided the following justification for the project:

- The current home is a traditional wood frame residential home that was constructed almost 30 years ago and no longer is sufficient for the needs of residents and staff.
- Impending changes to the fire safety code will require substantial expenditures to retrofit the current facility with sprinkler, electrical and alarm upgrades.
- The current facility is located in a neighborhood that has experienced a substantial shift in character since the facility opened and would benefit from a more suitable, less commercial neighborhood.

Service Area Demographics

The applicant's declared service area is Shelby County. An overview of the service area is provided as follows:

- The total population of Shelby County is estimated at 970,212 residents in calendar year (CY) 2018 increasing by approximately 2.2% to 991,879 residents in CY 2022.
- The overall statewide population is projected to grow by 4.1% from 2018 to 2022.
- The Shelby County intellectual and developmental disabilities target population based on the ICF/IID formula of .32% of the adult population is expected to increase approximately 2.2% from CY2018 to CY2022 compared to 4.1% statewide.
- Based on the latest TennCare enrollee statistics, TennCare enrollees as a percentage of the total county population is 25.6%, compared with the state-wide average of 20.7%.

Historical Utilization

There are currently 8 ICF/IID resident homes in Shelby County containing 8 beds per facility. The 8 resident homes are owned and operated by Open Arms Care. Historical utilization for these facilities is presented in the table below.

Shelby County ICF/IID Home Utilization-2014-2016

Name	Licensed Beds	2014 % Occupancy	2015 % Occupancy	2016 % Occupancy
Total	64	99.5%	99.4%	99.5%
	(8-8 bed homes)			

Source: CN1802-010 page R-21.

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The historical utilization table reflects the following:

- Shelby County ICF/IID homes have remained essentially at full occupancy for the years 2014 through 2016.

Applicant's Projected Utilization

The following table displays the projected utilization of the proposed project.

Applicant's Facility Projected Utilization		
Year	Licensed Beds	% Licensed Occupancy
Year 1	8	99.7%
Year 2	8	99.2%

Source: CN1802-010, Page 24

- The applicant expects to operate at full occupancy each of the first two years of operation.

ECONOMIC FEASIBILITY

Project Cost

The total project cost is \$3,370,000. Major costs are:

- Facility Lease - \$3,300,000 or 97.9% of total cost.
- Contingency Fund-\$35,733 or 1.1% of total cost
- For other details on Project Cost, see the Revised Project Cost Chart on page 26 in the application.

Financing

An October 10, 2017 letter provided in Supplemental 1 from Bill Berrell, Senior Vice President and Director of Healthcare Funding, ServisFirst Bank, confirmed the availability of a \$12,000,000 commercial loan for the construction and permanent financing of 8 new Open Arms ICF/IID facilities in Shelby County.

- The terms of the loan include a 7 year maturity date with interest anticipated at approximately 5.0%-5.50%, subject to market conditions and the loan to value ratio.
- Although the applicant will be leasing the proposed ICF/IID 8-bed facility, the total estimated acquisition, development, and construction cost amounts to approximately \$1,130,000 as shown on page R-27 of the application.
- The applicant has the means to meet annual lease payments estimated at \$244,444 in Year 1 of the project. Review of Open Arms audited financial statements for the fiscal year ending 12/31/2016 revealed Cash and Cash Equivalents of \$3,398,645, Current Assets of \$7,830,577 and Current Liabilities of \$5,593,200 for a current ratio of 1.40 to 1.0.

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Note to Agency members: The applicant calculated the life of the lease using the average annual rental cost of \$110,000 multiplied by the number of years on the lease term (30). The annual rent is a declining balance rather than an equal amortization over the 30 year term in order to match with FDG's financing, which will also be a declining balance as opposed to equal amortization. As a result, the total lease payment is \$244,444 in Year One and will decline over the course of the 30 year lease averaging \$110,000 per month.

Current ratio is a measure of liquidity and is the ratio of current assets to current liabilities which measures the ability of an entity to cover its current liabilities with its existing current assets. A ratio of 1:1 would be required to have the minimum amount of assets needed to cover current liabilities.

Net Operating Margin Ratio

- The applicant projects a net operating margin ratio for the total facility of 1.9% in Year 1 and 0.70% in Year 2.

Note to Agency Members: The net operating margin demonstrates how much revenue is left over after all the variable or operating costs have been paid.

Capitalization Ratio

- Open Arm's capitalization ratio is 146.9%.

Note to Agency Members: The capitalization ratio measures the proportion of debt financing in a business's permanent financing mix.

Historical Data Chart

- According to the Historical Data Chart, Open Arms Care Corporation's current 8 licensed bed home located at 4695 Allendale Drive, Memphis (Shelby County), TN realized a negative Free Cash Flow (Net Balance + Depreciation) balance of (\$48,939) in Year 2014, (\$165,871) in 2015, and (\$164,484) in 2016.

Note to Agency members: The applicant noted negative cash flow in the Historical Data Chart for each of the three previous years is the result of a switch from mortgage payments to lease payments in 2015. Subsequently, there was a lag where the results from the change did not appear until 2016. For more details, see page 28 of the application.

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Projected Data Chart

- The applicant projects \$1,788,661 in total gross revenue on 2,910 patient days in Year 1 decreasing by 0.77% to \$1,774,764 on 2,898 patient days in Year 2 (approximately \$612.41 per day).
- Free Cash Flow (Net Balance + Depreciation) equals \$0 in Year One and in Year Two.

Charges

In Year 1 of the proposed project (2019), the average gross daily patient charge is projected to be \$614.66. Since there are no deductions from revenue reported, the net charge is the same.

Medicare/TennCare Payor Mix

The applicant expects the proposed project to be funded 96% by TennCare/Medicaid and 4% Client Responsibility.

PROVIDE HEALTHCARE THAT MEETS APPROPRIATE QUALITY STANDARDS

Licensure

- If approved, the proposed new facility will be licensed by the Department of Intellectual and Developmental Disabilities (DIDD).
- A letter dated October 25, 2017 from DIDD indicates all eight Open Arms Care Corporation ICF/IID care homes in Shelby County are in full compliance with all applicable licensure rules.
- If approved, the applicant will report annually using forms prescribed by the Agency concerning continued need and appropriate quality measures.

Certification

- The applicant is TennCare certified.

Accreditation

- The applicant does not plan to apply for accreditation.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTHCARE

Agreements

- The applicant noted there are no transfer agreements or contractual agreements for health services.

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Impact on Existing Providers

- Since this project is a relocation of existing services, the proposed project will not negatively impact other providers in the service area.

Staffing

A breakout of the staffing in Year 1 includes the following:

- 0.25 FTE Registered Nurse
- 1.98 FTE LPNs
- 0.13 FTE Qualified ID Professional
- 12.50 FTE Direct Support Workers
- 14.86 Total FTE Direct Care Positions

Note: Generally speaking, one (1) FTE is equivalent to an individual that works 2,080 regular hours per year.

Corporate documentation and site control documents are on file at the Agency office and will be available at the Agency meeting.

Should the Agency vote to approve this project, the CON would expire in two years.

CERTIFICATE OF NEED INFORMATION FOR THE APPLICANT

There are no other Letters of Intent or denied applications for this applicant.

Pending Applications

Open Arms Care Corporation d/b/a Shelby County #4, CN1801-004, has a pending application that will be heard on Consent Calendar at the April 25, 2018 Agency meeting for the relocation of an 8 licensed bed ICF/IID home from 5380 Benjestown Road, Memphis (Shelby County), TN to a lot consisting of two parcels, a portion of which currently has an address of 8949 Macon Road, Cordova (Shelby County), TN 38127. **The estimated project cost is \$5,130,000.**

Open Arms Care Corporation d/b/a Shelby County #6, CN1802-007, has a pending application that will be heard on Consent Calendar at the April 25, 2018 Agency meeting for the relocation of an 8 licensed bed ICF/IID home from 4240 Raleigh Millington Road, Memphis (Shelby County), TN to an unaddressed 1.9 acre parcel near the northeast corner of the intersection of Pisgah Road and Latting Road, Cordova, TN 38016. The 1.9 acre lot site is the western portion of

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the property described as Parcel D0209 00179 (16.3 acres) in the records of the Shelby County Tax Assessor. **The estimated project cost is \$3,370,000.**

Open Arms Care Corporation d/b/a Shelby County #5, CN1802-008, has a pending application that will be heard on Consent Calendar at the April 25, 2018 Agency meeting for the relocation of an 8 licensed bed ICF/IID home from 4240 Raleigh Millington Road, Memphis (Shelby County), TN to an unaddressed 1.9 acre parcel near the northeast corner of the intersection of Pisgah Road and Latting Road, Cordova, TN 38016. The 1.9 acre lot site is the western portion of the property described as Parcel D0209 00179 (16.3 acres) in the records of the Shelby County Tax Assessor. **The estimated project cost is \$3,370,000.**

Open Arms Care Corporation d/b/a Shelby County #8 (Reese Road-East), CN1802-009, has a pending application that will be heard on Consent Calendar at the April 25, 2018 Agency meeting for the relocation of an 8 licensed bed ICF/IID home from 4707 Allendale Drive, Memphis (Shelby County), TN to an unaddressed 1.2 acre lot between parcels with the street addresses of 7751 Reese Road and 7781 Reese Road, Memphis (Shelby County), TN 38133. The 1.2 acre lot is the eastern lot of a 2.4 acre parcel. The 2.4 acre lot site is described as Parcel 095400 00624 and Parcel 095400 00625 in the records of the Shelby County Tax Assessor. **The estimated project cost is \$3,370,000.**

Outstanding Certificate of Need

Open Arms Care Corporation dba Greeneville # 1 Chuckey Pike, CN1511-050A, has an outstanding Certificate of Need that will expire on April 1, 2018. The application was approved at the February 24, 2016 Agency meeting for the establishment of a 4 person ICF/IID home on the east side of a 2.72 acre lot on Chuckey Pike, Greeneville (Greene County, TN). **The estimated project cost is \$1,370,000. *Project Status Update: A project status update received October 30, 2017 indicated the project is complete and licensed. A final project report will be submitted after the final certifications are completed and verified.***

Open Arms Care Corporation dba Hamilton County #2 Gamble Road (Southwest), CN1511-051A, has an outstanding Certificate of Need that will expire on April 1, 2018. The application was approved at the February 24, 2016 Agency meeting for the establishment of a 4 person ICF/IID home located on an unaddressed 1.5 acre site on the southwest quadrant of a 15.5 acre parcel being addressed as 7817 Gamble Road, Georgetown (Hamilton County), TN 37336. **The estimated project cost is \$1,370,000. *Project Status Update: A project status update received October 30, 2017 indicated the project is complete and licensed.***

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A final project report will be submitted after the final certifications are completed and verified.

Open Arms Care Corporation dba Greeneville #3 East Church Street-East, CN1511-052A, has an outstanding Certificate of Need that will expire on April 1, 2018. The application was approved at the February 24, 2016 Agency meeting for the establishment of a 4 person ICF/IID home on the east half of a 2.74 acre lot on East Church Street, Greeneville (Greene County), TN. **The estimated project cost is \$1,370,000. Project Status Update:** *A project status update received October 30, 2017 indicated the project is complete and licensed. A final project report will be submitted after the final certifications are completed and verified.*

Open Arms Care Corporation dba Hamilton County #1 Gamble Road (Southeast), CN1511-053A, has an outstanding Certificate of Need that will expire on April 1, 2018. The application was approved at the February 24, 2016 Agency meeting for the establishment of a 4 person ICF/IID home on the southeast quadrant of a 15.5 acre lot on 7817 Gamble Road, Georgetown (Hamilton County), TN 37336. **The estimated project cost is \$1,370,000. Project Status Update:** *A project status update received October 30, 2017 indicated the project is completed and licensed. A final project report will be submitted after the final certifications are completed and verified.*

Open Arms Care Corporation dba Greeneville #2 East Church Street-West, CN1511-054A, has an outstanding Certificate of Need that will expire on April 1, 2018. The application was approved at the February 24, 2016 Agency meeting for the establishment of a 4 person ICF/IID home on the west half of a 2.74 acre lot on East Church Street, Greeneville (Greene County), TN. **The estimated project cost is \$1,370,000. Project Status Update:** *A project status update received October 30, 2017 indicated the project is completed and licensed. A final project report will be submitted after the final certifications are completed and verified.*

Open Arms Care Corporation d/b/a Knox County #1 Bishops Bridge (Northeast), CN1512-062A, has an outstanding Certificate of Need that will expire on May 1, 2018. The application was approved at the March 23, 2016 Agency meeting for the establishment of a four (4) bed ICF/IID home on an unaddressed lot approximately 0.25 acres, in the northeast quadrant on a 7.2 acre parcel currently being addressed as 1817 Bishop Bridge Road, Knoxville (Knox County), TN. **The estimated cost is \$1,370,000. Project Status Update:** *A project status update received October 30, 2017 indicated the project is complete*

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and licensed. A final project report will be submitted after the final certifications are completed and verified.

Open Arms Care Corporation d/b/a Knox County #2 Bishops Bridge (Northwest), CN1512-063A, has an outstanding Certificate of Need that will expire on May 1, 2018. The application was approved at the March 23, 2016 Agency meeting for the establishment of a four (4) bed ICF/IID home on an unaddressed lot approximately 0.25 acres, in the northwest quadrant of a 7.2 acre parcel currently being addressed as 1817 Bishop Bridge Road, Knoxville (Knox County), TN. **The estimated cost is \$1,370,000. Project Status Update: A project status update received October 30, 2017 indicated the project is completed and licensed. A final project report will be submitted after the final certifications are completed and verified.**

Open Arms Care Corporation dba Knox County #4 South Northshore Drive (Northwest), CN1512-064A, has an outstanding Certificate of Need that will expire on May 1, 2018. The application was approved at the March 23, 2016 Agency meeting for the establishment of a four (4) bed home for individuals with Intellectual Disabilities (ICF/IID) located on a 0.95 acre lot on the northwest half of a 1.91 acre parcel currently addressed as 12629 South Northshore Drive in Knoxville (Knox County), Tennessee 37922. **The estimated project cost is \$1,370,000. Project Status Update: A project status update received October 30, 2017 indicated the project is complete and licensed. A final project report will be submitted after the final certifications are completed and verified.**

Open Arms Care Corporation dba Knox County #4 South Northshore Drive (Northwest), CN1512-065A, has an outstanding Certificate of Need that will expire on May 1, 2018. The application was approved at the March 23, 2016 Agency meeting for the establishment of a four (4) bed home for individuals with Intellectual Disabilities (ICF/IID) located on a 0.95 acre lot on the southeast half of a 1.91 acre parcel currently addressed as 12629 South Northshore Drive in Knoxville (Knox County), Tennessee 37922. **The estimated project cost is \$1,370,000. Project Status Update: A project status update received October 30, 2017 indicated the project is complete and licensed. A final project report will be submitted after the final certifications are completed and verified.**

Open Arms Care, CN1710-030A, has an outstanding Certificate of Need that will expire on April 1, 2020. The application was approved at the February 28, 2018 Agency meeting for the relocation of an 8 licensed bed ICF/IID home from 1457 Greendale Avenue, Memphis (Shelby County), TN to an unaddressed site

**Open Arms Care Corporation d/b/a Shelby County #7
CN0802-010
April 25, 2018**

located on the southwest corner of the intersection of Old Brownsville Road and Oak Road, Bartlett (Shelby County), TN 38002. The proposed site is the *west half* of the parcel described as Parcel B014800061 in the records of the Shelby County Tax Assessor. **The estimated project cost is \$3,370,000. *Project Status Report: The project was recently approved.***

Open Arms Care, CN1710-031A, has an outstanding Certificate of Need that will expire on April 1, 2020. The application was approved at the February 28, 2018 Agency meeting for the relocation of an 8 licensed bed ICF/IID home from 1445 Greendale Avenue, Memphis (Shelby County), TN to an unaddressed site located on the southwest corner of the intersection of Old Brownsville Road and Oak Road, Bartlett (Shelby County), TN 38002. The proposed site is the *east half* of the parcel described as Parcel B014800061 in the records of the Shelby County Tax Assessor. **The estimated project cost is \$3,370,000. *Project Status Report: The project was recently approved.***

Open Arms Care, CN1711-034A, has an outstanding Certificate of Need that will expire on April 1, 2020. The application was approved at the February 28, 2018 Agency meeting for the for the relocation of an 8 licensed bed ICF/IID home from 5350 Benjestown Road, Memphis (Shelby County), TN to an unaddressed site located on an 8.2 acre parcel located on the southwest corner of the intersection of Dexter Road and Dexter Lane, Cordova, (Shelby County), TN 38002. The proposed site is the south half of the parcel described as Parcel 096507 00307C in the records of the Shelby County Tax Assessor. **The estimated project cost is \$5,130,000. *Project Status Report: The project was recently approved.***

CERTIFICATE OF NEED INFORMATION FOR OTHER SERVICE AREA FACILITIES:

There are no other Letters of Intent, denied or pending applications, or outstanding Certificates of Need for other health care organizations in the service area proposing this type of service.

Open Arms Care Corporation d/b/a Shelby County #7
CN0802-010
April 25, 2018

PLEASE REFER TO THE REPORT BY THE DEPARTMENT OF INTELLECTUAL AND DEVELOPMENTAL DISABILITIES FOR A DETAILED ANALYSIS OF THE STATUTORY CRITERIA OF NEED, ECONOMIC FEASIBILITY, HEALTH CARE THAT MEETS APPROPRIATE QUALITY STANDARDS, AND CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE IN THE AREA FOR THIS PROJECT. THAT REPORT IS ATTACHED TO THIS SUMMARY IMMEDIATELY FOLLOWING THE COLOR DIVIDER PAGE.

PME

04/10/2018

Open Arms Care Corporation d/b/a Shelby County #7
CN0802-010
April 25, 2018

LETTER OF INTENT



State of Tennessee
Health Services and Development Agency

Andrew Jackson Building, 9th Floor
 502 Deaderick Street
 Nashville, TN 37243

www.tn.gov/hsda

Phone: 615-741-2364

Fax: 615-741-9884

LETTER OF INTENT

The Publication of Intent is to be published in The Commercial Appeal, which is a newspaper of general circulation in Shelby County, Tennessee, on or before February 9, 2018, for one day.

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 et seq., and the Rules of the Health Services and Development Agency, that Open Arms Care Corporation, a Georgia non-profit corporation qualified to do business in Tennessee, intends to file an application for a Certificate of Need for the replacement and relocation of an eight-person Intermediate Care Facility for Individuals with Intellectual Disabilities ("ICF/IID"), managed by Integra Resources, LLC, a Tennessee limited liability company. The facility is currently located at 4695 Allendale Drive, Memphis (Shelby County), Tennessee, and will be relocated to a parcel of approximately 1.2 acres, which is the western half of a lot of approximately 2.4 acres, on the south side of Reese Road, which currently does not have a separate street address. The 2.4 acre lot is between parcels with street addresses of 7751 Reese Road and 7781 Reese Road, Memphis, Tennessee, west of the intersection of Reese Road and Kate Bond Road. The 2.4 acre lot consists of property identified as Parcel 095400 00624 and Parcel 095400 00625 in the records of the Shelby County Tax Assessor. The estimated project cost is \$3,370,000.00.

The anticipated filing date of the application is on or before February 14, 2018. The contact person for this project is Michael D. Brent, Esq., who may be reached at Bradley Arant Boult Cummings LLP, 1600 Division Street, Suite 700, Nashville, Tennessee 37203. Mr. Brent's telephone number is (615) 252-2361 and his e-mail address is mbrent@bradley.com.

(Signature)

Feb. 9, 2018

(Date)

mbrent@bradley.com

(E-mail Address)

The Letter of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, Tennessee 37243

The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

Open Arms Care Corporation –
(Shelby County #7)

(Copy)

CN1802-010



State of Tennessee
Health Services and Development Agency

Andrew Jackson Building, 9th Floor, 502 Deaderick Street, Nashville, TN 37243
 www.tn.gov/hsda Phone: 615-741-2364 Fax: 615-741-9884

CERTIFICATE OF NEED APPLICATION

SECTION A: APPLICANT PROFILE

1. Name of Facility, Agency, or Institution

Open Arms Care Corporation d/b/a Shelby County #7 (Reese Road - West)

Name

Reese Road

Street or Route

Shelby

County

Memphis

City

Tennessee

State

38133

Zip Code

Website address: http://www.openarmscare.org

Note: The Facility's name and address **must be** the name and address of the project and **must be** consistent with the Publication of Intent.

2. Contact Person Available for Responses to Questions

Michael D. Brent

Name

Attorney

Title

Bradley Arant Boult Cummings LLP

Company Name

mbrent@bradley.com

Email address

1600 Division Street, Suite 700

Street or Route

Nashville

City

TN

State

37203

Zip Code

Attorney for Project

Association with Owner

615-252-2361

Phone Number

615-252-6361

Fax Number

NOTE: **Section A** is intended to give the applicant an opportunity to describe the project. **Section B** addresses how the project relates to the criteria for a Certificate of Need by addressing: Need, Economic Feasibility, Contribution to the Orderly Development of Health Care, and Quality Measures.

Please answer all questions on **8 1/2" X 11" white paper, clearly typed and spaced, single or double sided, in order and sequentially numbered. In answering, please type the question and the response.** All questions must be answered. If an item does not apply, please indicate "N/A" (not applicable). **Attach appropriate documentation as an Appendix at the end of the application and reference the applicable Item Number on the attachment, i.e., Attachment A.1, A.2, etc. The last page of the application should be a completed signed and notarized affidavit.**

3. SECTION A: EXECUTIVE SUMMARY

A. Overview

Please provide an overview not to exceed three pages in total explaining each numbered point.

- 1) Description - Address the establishment of a health care institution, initiation of health services, bed complement changes, and/or how this project relates to any other outstanding but unimplemented certificates of need held by the applicant:

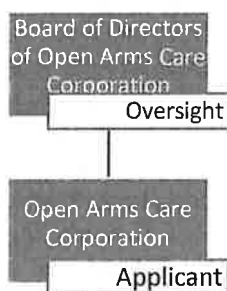
Response: Founded to address the needs of those moving out of large, state-run institutions, Open Arms Care Corporation, a Georgia nonprofit corporation ("Open Arms"), has 32 eight-resident homes, or Intermediate Care Facilities for Individuals with Intellectual Disabilities ("ICF/IID"), located in or near Chattanooga, Knoxville, Memphis, and Nashville, Tennessee and 9 four-resident ICF/IID homes in or near Chattanooga, Knoxville and Greeneville, Tennessee. Please see Attachment A.4 for a list of facilities operated by Open Arms in Tennessee. Through provider agreements with TennCare, Open Arms has been providing community-based facilities for individuals with intellectual and developmental disabilities for almost 30 years. This project proposes the relocation of the eight individuals in the Applicant's 8-bed ICF/IID facility located at 4695 Allendale Drive, Memphis (Shelby County), Tennessee 38128 to a newly constructed 8-bed ICF/IID facility in Shelby County, Tennessee. The Applicant leases the current facility from WCO AL DP, LLC ("WCO"), a non-profit housing organization that provides affordable and special needs housing. Please note that the Applicant does not know and has no input as to what WCO will do with the home in which the current facility is located if this application is approved. The Applicant proposes relocating the aforementioned 8 clients to a lot of approximately 1.2 acres, which does not currently have a separate street address, on the south side of Reese Road, west of the intersection of Reese Road and Kate Bond Road, Memphis (Shelby County), Tennessee 38133, (being the western half of a lot of approximately 2.4 acres, located between parcels with street addresses of 7751 and 7781 Reese Road, Memphis, Tennessee, and consisting of property identified as Parcel 095400 00624 and Parcel 095400 00625 in the records of the Shelby County Tax Assessor). The proposed location is approximately 14.3 miles, or 19 minutes, from the current location of the ICF/IID facility. As a replacement facility, this project will not affect the number of ICF/IID beds in Shelby County. The Applicant currently has no outstanding but unimplemented certificates of need.

The facility will be a one-story, fully accessible family home of approximately 4,400 square feet with four bedrooms, combination living/dining room, kitchen, laundry, office, and associated storage areas. The home will have two large, fully accessible bathrooms, one half bath, and a residential sprinkler system. Depending on the resident and his or her medical needs, residents will receive assistance meeting hygiene requirements, specialized dietary services, physical therapy, and assistance with activities of daily living, as well as physical, occupational, and behavioral therapies. A resident's acuity level determines whether or not required physical therapy or occupational therapy takes place in the facility or in a different location. The overall goal is to provide the combination of an environment and services that will enrich their quality of life and sense of community. A typical day for a resident of an ICF/IID home begins with personal hygiene activities and breakfast, followed by programming such as habilitation and active treatment (physical therapy, vocational therapy, socialization, etc.), sometimes at a day center if prescribed in the resident's ISP. The habilitation care model for most Open Arms Care Corporation ("Open Arms") clients is to leave the residential facility on weekdays to attend habilitation and therapeutic programming according to an individual plan of care. This gives clients a more normalized routine akin to school or work attendance. The Applicant's day treatment facilities have special program enrichment spaces for therapies, which include but are not limited to, physical, occupational, recreational, social, family, artistic, hydro and Snoezelen, where clients are placed in a soothing and sense-stimulating environment, therapies that are not available in the group homes. Clients are generally at the day program for five to six hours each day.

The Applicant will be providing care to several medically fragile residents, who tend to require more hours from registered and licensed practical nurses. The Applicant will equip the proposed facility with wheelchairs required to facilitate some clients' mobility in addition to items such as positioning boards. The Applicant, however, notes that a client's changing condition or a new admission could require the Applicant to have equipment similar to that found in skilled nursing facilities such as hospital beds, wheelchairs, respirators, incubators and tube feeding equipment.

2) Ownership structure

Response: As shown in the chart below, Open Arms is a Georgia nonprofit corporation with no ownership shares or membership interests and is board-managed. Open Arms is owned by neither another entity nor by individuals. Instead, Open Arms has a board of directors, which consists of six individuals, who oversee the entity's affairs. Note that, unlike some multi-facility providers, each facility operated by Open Arms is operated directly by Open Arms, without the use of subsidiary entities. Please see the chart below illustrating solely the operation of Open Arms. Though Open Arms is a Georgia nonprofit corporation, the board of Open Arms is considering converting to a Tennessee nonprofit corporation. If the ultimate decision is to make such a conversion, a new Tennessee nonprofit corporation would be created and the existing Georgia nonprofit corporation would be merged into it, with the result being that Open Arms would be a Tennessee corporation. The laws of some states allow a simpler



process whereby a non-nonprofit corporation can change its domicile from one state to another, but that is not currently allowed for transitions from a Georgia to a Tennessee corporation.

3) Service area

Response: The service area is Shelby County, Tennessee.

4) Existing similar service providers

Response: Open Arms is one of only a few ICF/IID providers in Tennessee, and the only such provider currently serving Shelby County.

5) Project cost

Response: As shown on the Project Cost Chart, the total cost is \$3,370,000, due to the requirements that the cost be based on the total lease costs over a 30 year period. However, the actual cost of the land, site improvements, and construction is less than half of that amount.

6) Funding

Response: As shown on the attached funding letter, Servis1St Bank will be the lender for the project, and has a long relationship as a lender for Open Arms projects.

7) Financial Feasibility including when the proposal will realize a positive financial margin

Response: As shown on the financial projections, as a relocation of exiting services, with existing residents, the project is anticipated to have positive financial results upon opening.

8) Staffing

Response: The Applicant currently employs a full staff at the facility to be relocated, as well as 7 other similar facilities in Shelby County. It is anticipated that all such staff members will transfer from the current facility to the replacement facility.

B. Rationale for Approval

A certificate of need can only be granted when a project is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, will provide health care that meets appropriate quality standards, and will contribute to the orderly development of adequate and effective health care in the service area. This section should provide rationale for each criterion using the data and information points provided in Section B. of this application. Please summarize in one page or less each of the criteria:

1) Need

Response: The intent of this application is to relocate 8 individuals who currently reside in an Open Arms facility in Shelby County (the "Residents") to a new facility that the Applicant will construct if this Application is approved. The Residents' current home is a traditional wood frame residential home that was constructed almost 30 years ago and is no longer sufficient for the needs of Residents and staff. Having been in use for almost 30 years, it has become evident that staffing and Residents' equipment needs over this period have far exceeded the expected use for such structures, which are reminiscent of conventional family use houses. While the Applicant has maintained good conditions for compliance and safety, the structure experiences wear and tear commensurate with such lengthy use which results in ever increasing repair and maintenance costs as the structure continues to age.

The proposed construction of a new facility is also in response to Residents' increased acuity. The Applicant must meet the increased needs of aging long term Residents as well as new admissions with higher levels of acuity in a facility that was not built with such individuals in mind. The Applicant wants to construct homes with floorplans, materials and technologies with the higher level of care required by these Residents in mind, as the Applicant did with clients admitted in connection with closure of Green Valley Development Center. The Applicant's current facility is also located in a neighborhood that has experienced a substantial shift in character since the facility opened. Residents will therefore also benefit from a more suitable, less commercial neighborhood. Finally, impending changes to the fire safety code will require substantial expenditures to retrofit the current facility with sprinkler, electrical and alarm upgrades, and, given the age and undesirable location of the current facility, the Applicant finds it more prudent to begin to transition residents to a new facility constructed pursuant to the new requirements and modern technology instead of spending substantial sums on the current facility. As with most of the Applicant's facilities in similar circumstances, the proposed relocation and construction of a new facility is part of the Applicant's long term plan to do the same with its other aging ICF/IID facilities.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Open Arms Care Corporation Inc., and Affiliates as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 14-15 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, and cash flows of the individual companies. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

LBMC, PC

Brentwood, Tennessee
February 23, 2017

Consolidated Balance Sheets

December 31, 2016 and 2015

Assets

	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 3,398,645	\$ 3,549,844
Funds held in custody for others	353,022	408,915
Patient accounts receivable, less allowance for doubtful accounts of approximately \$89,000 in 2016 and 2015	3,814,893	3,335,673
Prepaid expenses and other current assets	<u>264,017</u>	<u>114,277</u>
Total current assets	<u>7,830,577</u>	<u>7,408,709</u>
 Property and equipment, net	 <u>29,010</u>	 <u>13,305</u>
 Other Assets:		
Other long-term assets	173,429	44,360
Notes receivable	<u>1,914,895</u>	<u>1,914,895</u>
Total other assets	<u>2,088,324</u>	<u>1,959,255</u>
Total assets	<u>\$ 9,947,911</u>	<u>\$ 9,381,269</u>

Liabilities and Net Assets (Deficit)

Current liabilities:		
Accounts payable and accrued expenses	\$ 954,990	\$ 731,906
Funds held in custody for others	353,022	408,915
Accrued rent expense	3,396,412	2,131,415
Accrued salaries and benefits	868,776	710,118
Accrued interest	<u>20,000</u>	<u>20,000</u>
Total current liabilities	5,593,200	4,002,354
 Long-term debt	 2,000,000	 2,000,000
Deferred gain on sale-leaseback transaction	<u>2,993,018</u>	<u>4,490,938</u>
Total liabilities	10,586,218	10,493,292
 Net deficit	 <u>(638,307)</u>	 <u>(1,112,023)</u>
Total liabilities and net deficit	<u>\$ 9,947,911</u>	<u>\$ 9,381,269</u>

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Operations and Changes in Net Assets (Deficit)

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Unrestricted revenues:		
Net patient service revenues	\$ 43,216,565	\$ 39,099,602
Investment income	21,469	45,024
Net special events revenue	24,386	24,299
Other revenues	<u>53,019</u>	<u>134,621</u>
Total unrestricted revenues	<u>43,315,439</u>	<u>39,303,546</u>
Expenses:		
Salaries and wages	23,047,918	22,436,496
Employee benefits	4,242,309	4,161,858
Professional services	1,582,597	1,810,130
Supplies	4,630,525	4,651,741
Maintenance and repairs	587,440	603,660
Utilities	686,144	679,885
Insurance	522,538	520,503
Depreciation and amortization	6,067	418,026
Interest expense	240,818	403,840
Gain on disposal of property and equipment	(5,575)	(7,330)
Taxes and licenses	2,438,084	2,270,324
Provision for doubtful accounts	40	333
Rent	3,481,279	2,724,706
Amortization of deferred gain	(1,497,920)	(1,274,622)
Management fee and related costs of operations	<u>2,879,459</u>	<u>2,190,610</u>
Total expenses	<u>42,841,723</u>	<u>41,590,160</u>
Excess of revenues over expenses (expenses over revenues)	473,716	(2,286,614)
Net assets (deficit) at beginning of year	<u>(1,112,023)</u>	<u>1,174,591</u>
Net deficit at end of year	\$ <u>(638,307)</u>	\$ <u>(1,112,023)</u>

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Excess of revenues over expenses (expenses over revenues)	\$ 473,716	\$ (2,286,614)
Adjustments to reconcile excess revenues over expenses (expenses over revenues) to net cash used by operating activities:		
Net losses on investments and trustee funds	-	10,785
Depreciation and amortization	6,067	418,026
Provision for doubtful accounts	40	333
Gain on disposal of property and equipment	(5,575)	(7,330)
Amortization of deferred gain	(1,497,920)	(1,274,622)
(Increase) decrease in operating assets:		
Patient accounts receivable	(479,260)	125,367
Prepaid expenses and other current assets	(149,740)	(63,620)
Other assets	(129,069)	(15,185)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	223,084	40,938
Accrued rent expense	1,264,997	2,131,415
Accrued salaries and benefits	158,658	(73,469)
Accrued interest	-	(214,698)
Net cash used by operating activities	<u>(135,002)</u>	<u>(1,208,674)</u>
Cash flows from investing activities:		
Proceeds from the sale of investments and trustee funds, net	-	1,791,252
Proceeds from the sale of property and equipment	5,575	7,741
Purchase of property and equipment	<u>(21,772)</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>(16,197)</u>	<u>1,798,993</u>
Cash flows from financing activities:		
Proceeds from long-term debt	-	2,000,000
Principal payments of long-term debt	-	(25,683)
Cash paid for transaction costs related to sale-leaseback transaction	<u>-</u>	<u>(391,726)</u>
Net cash provided by financing activities	<u>-</u>	<u>1,582,591</u>
Increase (decrease) in cash and cash equivalents	(151,199)	2,172,910
Cash and cash equivalents at beginning of year	<u>3,549,844</u>	<u>1,376,934</u>
Cash and cash equivalents at end of year	\$ <u>3,398,645</u>	\$ <u>3,549,844</u>
Supplemental disclosure of cash flow information -		
Cash paid for interest	\$ <u>240,818</u>	\$ <u>618,538</u>
Noncash activity related to sale-leaseback transaction:		
Issuance of note receivable	\$ -	\$ (1,914,895)
Decrease in trustee funds	-	2,625,141
Proceeds from sale of property and equipment	-	11,514,298
Repayment of long-term debt	-	(11,716,068)
Transaction costs	<u>-</u>	<u>(508,476)</u>
	\$ <u>-</u>	\$ <u>-</u>

See accompanying notes to the consolidated financial statements.

December 31, 2016 and 2015

(1) Organization

The accompanying consolidated financial statements of Open Arms Care Corporation Inc., and Affiliates (collectively the "Company") include the transactions and accounts of Open Arms Care Corporation, Inc., Open Arms Care Foundation ("Foundation"), and Open Arms Health System, LLC ("Clinic").

Open Arms Care Corporation, Inc. operates intermediate care facilities for persons with intellectual and developmental disabilities. The facilities are located in Chattanooga, Knoxville, Memphis, and Nashville, Tennessee. In 2005, the Foundation was formed to support non-Medicaid allowable expenses and capital projects through charitable donations for the benefit of the Open Arms Care Corporation, Inc.'s clients. In 2013, Open Arms Health System, LLC ("OAHS") was formed to provide routine clinic services to the clients and employees of Open Arms Care Corporation, Inc. In 2016, the Company executed leases for nine new homes which are due to be put into operation in 2017. The rent amounts for the nine new homes are subject to final construction costs and the associated annual debt service payable by the landlord.

(2) Summary of significant accounting policies**(a) Principles of consolidation**

These consolidated financial statements include the accounts of Open Arms Care Corporation, Inc., Open Arms Care Foundation, Inc., and Open Arms Care Health Services, LLC. All significant intercompany accounts and transactions have been eliminated.

(b) Cash and cash equivalents

The Company considers cash and highly liquid investments having a maturity date at acquisition of 90 days or less to be cash and cash equivalents.

(c) Property and equipment

Property and equipment are stated at cost. Depreciation is provided over the assets' estimated useful lives using the straight-line method. Buildings and improvements are generally depreciated over ten to twenty five years and vehicles over three to five years.

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. When property is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in operations.

(d) Deferred gain on sale-leaseback

The deferred gain is being amortized over the life of the leases as discussed at Note 13.

December 31, 2016 and 2015

(e) Performance indicator

The revenues over expenses (expenses over revenues) as reflected in the accompanying statements of operations is a performance indicator.

(f) Federal income taxes

Open Arms Care Corporation, Inc. is an organization recognized as exempt from federal income tax under Section 501(c)(3) and as a public charity under Section 509(a)(1) and as a hospital described in Section 170(b)(1)(A)(iii). Open Arms Care Foundation is an organization recognized as exempt from federal income tax under 501(c)(3) and as a public charity under Section 509(a)(1) and as a publicly supported organization under Section 170(b)(1)(A)(vi). The Internal Revenue Service has determined that the Company is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Open Arms Health System, LLC is a single member limited liability company and for tax purposes, is treated as a disregarded entity of Open Arms Care Corporation, Inc.

Under generally accepted accounting principles, a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax purposes not meeting the "more likely than not" test, no tax benefit is recorded. The Company has no material uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements.

As of December 31, 2016, the Company has accrued no interest and no penalties related to uncertain tax positions. It is the Company's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company files Federal Form 990 informational tax returns. The Company is currently open to audit under the statute of limitations for years ended December 31, 2013 through 2016.

(g) Revenue recognition

Net patient service revenue is recognized at the estimated net realizable amounts from patients, third-party payors and others for services rendered.

December 31, 2016 and 2015

(h) Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(i) Reclassifications

Certain reclassifications have been made to the 2015 consolidated financial statements in order to conform to the 2016 presentation. These reclassifications have no effect on the excess of expenses over revenues or net assets as previously reported.

(j) Events occurring after reporting date

The Company has evaluated events and transactions that occurred between December 31, 2016 and February 23, 2017, which is the date that the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

(3) Credit risk

The Company may maintain cash and cash equivalents on deposit at banks in excess of federally insured amounts. The Company has not experienced any losses in such accounts and management believes the Company is not exposed to any significant credit risk related to cash and cash equivalents.

(4) Medicaid program

Services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Company is reimbursed at a rate determined prospectively based on its filed cost reports. Final determination of amounts to be received is subject to audit by Medicaid.

The State of Tennessee passed legislation, effective July 1, 1994, which imposed a provider tax on Intermediate Care Facilities for persons with intellectual and developmental disabilities at a rate of 6% of gross receipts, as defined. During 2008, this rate was reduced to 5.5%. The consolidated statements of operations include approximately \$2,353,000 and \$2,156,000 of Tennessee provider tax expense for 2016 and 2015, respectively.

December 31, 2016 and 2015

Substantially all net patient service revenues in 2016 and 2015 relate to services provided to patients covered by the Medicaid program. Laws and regulations governing the Medicaid program are extremely complex and subject to interpretation. The Company believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicaid program.

(5) Note receivable

In 2015, the Company received a promissory note receivable for \$1,914,895 from Woodbine Community Organization, Inc. ("Woodbine") in connection with the sale-leaseback transaction discussed at Note 13. Interest was paid in semi-annual installments at a fixed rate of 1%, which was reduced to 0% effective November 1, 2016. Principal on the note is to be paid on April 27, 2030. The note is subject to certain principal payment requirements or conditions as defined in the agreement. The Company recognized interest income of \$16,489 and \$14,362 in 2016 and 2015, respectively, that is included in investment income in the consolidated statements of operations.

(6) Long-term debt

Long-term debt consists of the following:

	<u>2016</u>	<u>2015</u>
Note payable to related party; monthly interest only payments at 12% per annum with principal due September 30, 2022.	\$ <u>2,000,000</u>	\$ <u>2,000,000</u>

In 2015, the Company borrowed \$2,000,000 at a fixed interest rate equal to 12% per annum from Integra Resources, LLC ("Integra"). The note is secured by substantially all assets of the Company and is subordinated to certain required rent payments discussed in Note 13. The note is payable in monthly interest-only payments with principal due September 30, 2022. Should the management agreements be extended (see Note 10), the due date of this note is automatically extended to the termination date of the management agreement. The note is subject to a call provision should the management agreement be terminated and would be due in 16 monthly installments starting 30 days after such termination.

In 2015, the Company entered into a \$1,000,000 revolving line of credit with Integra. Borrowings bear interest at a fixed rate equal to 8% per annum. The line of credit is payable in monthly interest-only payments with principal due September 30, 2022. The note is secured by substantially all assets of the Company and is subordinated to certain required rent payments discussed in Note 13. The line of credit is subject to a call provision should the management agreement be terminated and would be due 30 days after such termination. The Company had no outstanding borrowings on the line of credit as of December 31, 2016 and 2015.

December 31, 2016 and 2015

(7) Investment income

Investment income during 2016 and 2015 was comprised of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 21,469	\$ 55,809
Realized gain	-	128,558
Change in unrealized loss	<u>-</u>	<u>(139,343)</u>
	<u>\$ 21,469</u>	<u>\$ 45,024</u>

(8) Commitments and ContingenciesOperating Lease Commitments

Future minimum annual rental payments under noncancelable operating lease and service agreements, excluding the facility leases discussed in Note 13, as of December 31, 2016 are as follows:

<u>Year</u>	
2017	\$ 417,000
2018	126,000
2019	78,000
2020	9,000
2021	<u>7,000</u>
	<u>\$ 637,000</u>

Total rental expense under noncancelable operating leases and service agreements, which includes amounts applicable to short-term leases, was approximately \$882,000 and \$874,000 for 2016 and 2015, respectively. The expense is higher than the future commitments due to vehicle leases that have cancellation features at the Company's option.

Healthcare Regulation

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare fraud and abuse. Recently, government activity has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Company is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

December 31, 2016 and 2015

Healthcare Reform

In March 2010, Congress adopted comprehensive health care insurance legislation, the Patient Care Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the "Health Care Reform Legislation"). The Health Care Reform Legislation, among other matters, is designed to expand access to health care coverage to substantially all citizens through a combination of public program expansion and private industry health insurance. Provisions of the Health Care Reform Legislation became effective in 2014. Due to the complexity of the Health Care Reform Legislation, reconciliation and implementation of the legislation continues to be under consideration by lawmakers, and it is not certain as to what changes may be made in the future regarding health care policies. Changes to existing Medicaid coverage and payments are also expected to occur as a result of this legislation. While the full impact of Health Care Reform Legislation is not yet fully known, changes to policies regarding reimbursement, universal health insurance and managed competition may materially impact the Company's operations.

Insurance

The Company maintains claims made basis professional and occurrence basis general liability insurance for primary coverage. The Company also maintains excess insurance coverage.

Litigation

The Company is subject to claims and suits arising in the ordinary course of business. In the opinion of management, the ultimate resolution of pending legal proceedings will not have a material effect on the Company's financial position.

(9) Related party transactions

The Company incurred professional fees and expenses totaling approximately \$8,000 and \$33,000 in 2016 and 2015, respectively, for services provided by certain board members.

(10) Management agreement

Concurrent with the sale-leaseback transaction (see Note 13), the Company borrowed \$2,000,000 and entered into a management agreement with Integra. See Note 6 for terms of the \$2,000,000 borrowing. The management agreement provides general management services to all facilities. The management agreement expires on March 31, 2024 with automatic extensions up to seven years. Integra charges a management fee that is a combination of a fixed monthly fee per facility, 5% of the OAHS gross revenues and the salary and expenses of the facility directors. For the years ended December 31, 2016 and 2015, Integra charged management fees and related costs of operations of \$2,879,459 and \$2,190,610, respectively, to the Company.

December 31, 2016 and 2015

(11) Functional expenses

The Company provides intermediate care services to individuals with intellectual and developmental disabilities within certain geographic locations. Expenses related to providing these services are as follows:

	<u>2016</u>	<u>2015</u>
Intellectual and developmental services	\$ 38,342,575	\$ 37,310,068
General and administrative	4,473,800	4,262,255
Fundraising	<u>25,348</u>	<u>17,837</u>
	<u>\$ 42,841,723</u>	<u>\$ 41,590,160</u>

(12) Retirement plan

The Company has a defined contribution 403(b) retirement plan for employees who have two years of service. For the years ended December 31, 2016 and 2015, the Company contributed approximately 1.0% of each participants' compensation, subject to Internal Revenue Code limitations. The Company contributed approximately \$146,000 and \$145,000 to the plan in 2016 and 2015, respectively.

(13) Sale-leaseback transaction

During April 2015, the Company sold substantially all of its property and equipment to an unrelated party for approximately \$11.5 million. The Company received cash of approximately \$9.6 million and a note receivable for \$1.9 million (see Note 5). The Company used the cash proceeds and certain trustee funds to retire substantially all of the Company's long-term debt. The gain, which was net of transaction costs, was approximately \$5,765,000, has been deferred and is being recognized over the term of the lease in proportion to certain rental payments as discussed below. In conjunction with the transaction, the Company entered into individual lease agreements to leaseback the property and equipment from the buyer. The leases are for terms of 15 years and can be extended at the option of the Company for two additional 5 year terms.

December 31, 2016 and 2015

Rent expense under these leases totaled approximately \$3,481,000 and \$2,725,000 during 2016 and 2015, respectively. The lease agreements allow for certain property improvements to be passed along to the Company as incremental increases in rent payments. For the years ended December 31, 2016 and 2015, the Company expensed approximately \$230,000 and \$11,000, respectively, in additional rent related to property improvements. A summary of approximate future lease payments under the leases and related amortization of the deferred gain as of December 31, 2016 is as follows:

Years	Rent	Amortization		
		Gain	Transaction Costs	Total
2017	\$ 2,881,000	\$ (1,363,000)	\$ 184,000	\$ (1,179,000)
2018	2,197,000	(928,000)	125,000	(803,000)
2019	1,618,000	(581,000)	79,000	(502,000)
2020	989,000	(195,000)	26,000	(169,000)
2021	791,000	(93,000)	12,000	(81,000)
Thereafter	4,450,000	(300,000)	41,000	(259,000)
	<u>\$ 12,926,000</u>	<u>\$ (3,460,000)</u>	<u>\$ 467,000</u>	<u>\$ (2,993,000)</u>

As of December 31, 2016 and 2015, there was approximately \$3,396,000 and \$2,131,000, respectively, of rent payments accrued on the consolidated balance sheet. These amounts are paid subsequent to the annual cost report filing for the Company. Should there be changes to the allowed facility rental reimbursement in the annual cost report, there are remedies within the lease agreements that permit changes to the rent payments subject to an annual floor as defined in the agreements.

The Company has implemented a plan to replace substantially all facilities over a five year period. The rent payments are structured to match the expected facility replacement at each location and the related reimbursement. As the facilities are replaced, the lease agreements discussed above are subject to termination and the Company will enter into new leases related to the replacement facilities. Based on management's plans to replace all facilities over the next five years and the expected termination of the leases discussed above, the rent expense is being recognized when due, rather than on a straight-line basis over 15 years. The related deferred gain on the sale-leaseback is being amortized in a similar manner.

Supplemental Schedule - Consolidating Balance Sheet

Total

See accompanying independent auditors' report

OPEN ARMS CARE CORPORATION INC., AND AFFILIATES

Supplemental Schedule - Consolidating Statement of Operations and Changes in Net Assets (Deficit)

For the year ended December 31, 2016

	Chattanooga	Greeneville	Knoxville	Memphis	Nashville	Headquarters	Subtotal Open Arms Care Corporation	Open Arms Health System, LLC	Total Open Arms Care Corporation	Open Arms Care Foundation	Consolidated Open Arms Care Corporation
Revenues:											
Net patient services revenue	\$ 11,139,083	\$ -	\$ 10,990,565	\$ 11,150,105	\$ 9,936,812	\$ -	\$ 43,216,555	\$ -	\$ 43,216,555	\$ -	\$ 43,216,555
Investment income	-	-	-	-	-	21,469	21,469	-	21,469	-	21,469
at special events revenue	-	-	-	-	-	-	-	-	-	-	-
Intercompany revenue	3,000	-	11,872	17,003	12,941	-	44,816	-	44,816	(44,816)	24,386
Other revenues	1,151	-	-	-	1,809	37	2,997	-	2,997	50,022	53,019
Total unrestricted revenues	11,143,234	-	11,002,437	11,167,108	9,951,562	21,506	43,285,847	-	43,285,847	29,592	43,315,439
Expenses:											
Salaries and wages	5,972,078	-	5,993,067	5,749,542	5,223,020	170,211	23,047,918	-	23,047,918	-	23,047,918
Employee benefits	1,189,849	-	1,150,693	966,826	919,733	15,208	4,242,309	-	4,242,309	-	4,242,309
Professional services	205,002	-	304,802	585,549	271,109	215,085	1,581,547	-	1,581,547	1,050	1,582,597
Depreciation	1,087,170	-	1,089,807	1,072,219	1,075,149	312,303	4,636,648	-	4,636,648	(6,123)	4,630,525
Maintenance and repairs	134,356	-	179,645	136,337	136,271	831	587,440	-	587,440	-	587,440
Utilities	183,388	-	159,503	153,809	188,945	499	686,144	-	686,144	-	686,144
Insurance	123,613	-	128,085	118,064	122,202	30,574	522,538	-	522,538	-	522,538
Depreciation and amortization	-	-	827	667	4,573	-	6,067	-	6,067	-	6,067
Travel expense	114	-	229	419	56	240,000	240,818	-	240,818	-	240,818
Gain on disposal of property and equipment	-	-	(4,875)	(700)	-	-	(5,575)	-	(5,575)	-	(5,575)
Leases and licenses	621,507	-	612,592	618,385	557,150	27,854	2,437,488	410	2,437,898	186	2,438,084
Provisions for doubtful accounts	-	-	-	20	20	-	40	-	40	-	40
Intangible assets	640,474	-	869,907	1,228,759	742,099	-	3,481,279	-	3,481,279	-	3,481,279
Management fee and related costs of operations	684,331	-	684,948	739,094	771,086	-	2,879,459	-	2,879,459	-	2,879,459
Amortization of deferred gain	-	-	-	-	-	(1,497,920)	(1,497,920)	-	(1,497,920)	-	(1,497,920)
Intercompany expense	247,767	-	247,762	247,767	247,765	(991,061)	-	-	-	-	-
Total expenses	11,089,649	-	11,356,992	11,516,797	10,259,178	(1,476,416)	42,846,200	410	42,846,610	(4,887)	42,841,723
Increase (decrease) in net assets (deficit)	53,585	-	(354,555)	(449,689)	(307,616)	1,497,922	439,647	(410)	439,237	34,479	473,716
Net assets (deficit) at beginning of year	1,876,575	-	(19,870)	322,390	1,214,685	(4,843,244)	(1,449,464)	90,032	(1,359,432)	247,409	(1,112,023)
Net assets (deficit) at end of year	\$ 1,930,160	\$ -	\$ (374,425)	\$ (127,299)	\$ 907,069	\$ (3,345,322)	\$ (1,009,817)	\$ 89,622	\$ (920,195)	\$ 281,888	\$ (638,307)

See accompanying independent auditors' report

Attachment B - Contribution to the Orderly Development of Health Care - D2**Statement of Deficiencies**

Vicki Cox
Open Arms Care Corporation
P. O. Box 341185
Memphis, TN 38134

Ms. Cox:

Enclosed with this letter you will find a Licensure Notice of Non-Compliance and Plan of Compliance form. This form describes the results and findings of the unannounced inspection of your facilities. The unannounced inspection was conducted by this office on 9/12-15 2017, to determine your compliance with standards for licensure of the Tennessee Department of Intellectual and Developmental Disabilities.

Once you have read the Licensure Notice of Non-Compliance and plan of Compliance Form and have written your plan(s) of correction, the form must be signed, dated and returned to the West Tennessee Regional Office of Licensure and Review no later than **October 7, 2017**

If you have any questions, please do not hesitate to contact me.

Sincerely,



Gale Carter,
West TN Licensure Coordinator



LICENSURE NOTICE OF NON-COMPLIANCE
AND PLAN OF COMPLIANCE FORM
STATE OF TENNESSEE

DEPARTMENT OF INTELLECTUAL AND DEVELOPMENTAL DISABILITIES

NAME AND ADDRESS OF DIDD LICENSURE OFFICE SENDING NOTICE:

DIDD Licensure Office (WEST)

225 Dr. Martin Luther King Drive
4th Floor, Tower B
Jackson, TN 38301

Page 1

Date of notice

9/25/2017

EVENT & DATE RESULTING IN NOTICE:

9/15/2017

NOTICE OF NON-COMPLIANCE TO: (Licensee's Name & Address)

Open Arms Care Corporation
5120 Yale Rd. Memphis TN 38134

NAME AND LOCATION OF FACILITY IN NON-COMPLIANCE

YOUR PLAN OF COMPLIANCE MUST BE RETURNED
LATER THAN:

10/7/2017

(Do Not Write in Space Below)

Policy	SUMMARY OF THE FINDINGS OF NON-COMPLIANCE WITH THE RULES REFERENCED	P.O.C. Review Code*	DESCRIBE BELOW YOUR PLAN FOR COMPLYING WITH EACH RULE IN NON-COMPLIANCE	Col
0465-02-05-03	Maintain in safe manner- 1. 4240 Raleigh Millington Rd-During a fire drill door on left-(bedroom) did not close. 2. Leak in the boiler room-around the elbow. 3. Strip on cabinet door needs replacing. 4254- Raleigh Millington- 1. Cabinets drawer in kitchen had no knobs. 2. Bath mat needs replacing-(1) bedroom-on the right. 3. During the fire drill bedroom (2)door did not close completely. 4. Microwave needs cleaning. 5. Sink in kitchen need a water regulator. 4695 Allendale Drive 1. Baseboard in WO room-molded.		0465-02-05-03 Correction: All issues cited will be corrected by 10/06/17. Identification: No other issues regarding fire safety doors, water leaks, cabinetry, appliances, baseboards or bath mats were noted at any location. Preventative Measures: Environmental Checks will be performed at all locations monthly to ensure compliance with Licensure regulations. Monitoring: The Home Manager (HM) will monitor the site weekly. Should there be any noted issues, requests for maintenance will be documented for immediate correction.	10/06/17

SIGNATURE OF DIDD REVIEWER OF P.O.C.

Gale Carter, West Licensure Coordinator

Josh Fowlkes, Facility Surveyor

DATE OF REVIEW:

9/7/2017

SIGNATURE OF LICENSEE OR AUTHORIZED AGENT:

Vicki Cox

DATE OF SIGNATURE:

10/06/17

*P.O.C. Review Codes: (See Review & Approval Status Form For Explanations.) A=Approved.

AE=Approved With Exception.

RR=Rejected-Resubmit.

RS=Rejected-Sanction.

LICENSE NOTICE OF NON-COMPLIANCE AND PLAN OF COMPLIANCE FORM (Continuation Page)	DATE OF NOTICE:	NOTICE OF NON-COMPLIANCE TO: (Licensee's Name)
	Page <u>2</u> of <u>2</u> Page(s)	NAME OF FACILITY IN NON-COMPLIANCE:

(Do Not Write in Space Below)		
Policy	SUMMARY OF THE FINDINGS OF NON-COMPLIANCE WITH THE RULES REFERENCED	P.O.C. Review Code*
0465-02-05-03	<p>4707-Allendale Dr.</p> <p>1. Cracked wall socket.</p> <p>1457 Greendale Ave-</p> <p>1. Cable line hanging outside. 2. Shower rod needs replacing-rusted 3. Storage room door need a handle 4. Emergency light not attached to wall</p> <p>5330*Bengestown Rd. *5350</p> <p>1. Ants crawling in bathroom sink. 2. Shower curtain needs replacing. 3. Lawn needs mowing</p> <p>5170 Yale Road-</p> <p>1. Blinds needs replacing in social area. 2. Light bulb out in the attic. 3. Panel off of the hot water tank in the attic. 4. Refrigerator need cleaning in the kitchen area (on the outside of the refrigerator).</p>	<p>0465-02-05-03</p> <p>Correction: All issues cited will be corrected by 10/6/17.</p> <p>Identification: No other issues regarding wall sockets, emergency lights, shower rods, doors, insects, lawn care, blinds or appliances were noted at any location.</p> <p>Preventative Measures: Environmental Checks will be performed at all locations monthly to ensure compliance with Licensure regulations.</p> <p>Monitoring: The Home Manager (HM) will monitor the site weekly. Should there be any noted issues, requests for maintenance will be documented for immediate correction.</p>

SIGNATURE OF DIDD REVIEWER OF P.O.C. <i>Gale Carter</i> DATE OF REVIEW 9/12-15/2017	SIGNATURE OF LICENSEE OR AUTHORIZED AGENT: <i>Vicki Cox</i> DATE OF SIGNATURE 10/06/17
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*P.O.C. Review Codes: (See Review & Approval Status Form For Explanations.)

AE = Approved With Exception. RR = Rejected-Resubmit. RS = Rejected-Sanction.

October 25, 2017

Ms. Vicki Cox
Open Arms Care Corporation
P. O. Box 341185
Memphis, TN 38184

Dear Ms. Cox:

Attached are Full Licenses issued to Open Arms Care Corporation to operate facilities/services at the addresses listed herein. These licenses are effective September 01, 2017 and will expire on August 31, 2018. This Full License indicates that this facility/service has been found to be in full compliance with applicable Licensure rules.

Allendale Drive Home 1 - Memphis at 4695 Allendale Drive, Memphis, TN 38128

Attached: L000000016965 - ID & DD Institutional Habilitation Facility, Capacity: 8

Allendale Drive Home 2 - Memphis at 4707 Allendale Drive, Memphis, TN 38128

Attached: L000000016966 - ID & DD Institutional Habilitation Facility, Capacity: 8

Benjestown Home 1 - Memphis at 5350 Benjestown Road, Memphis, TN 38127

Attached: L000000016967 - ID & DD Institutional Habilitation Facility, Capacity: 8

Benjestown Home 2 - Memphis at 5380 Benjestown Road, Memphis, TN 38127

Attached: L000000016968 - ID & DD Institutional Habilitation Facility, Capacity: 8

Greendale Home 1 - Memphis at 1445 Greendale Avenue, Memphis, TN 38127

Attached: L000000016969 - ID & DD Institutional Habilitation Facility, Capacity: 8

Greendale Home 2 - Memphis at 1457 Greendale Avenue, Memphis, TN 38127

Attached: L000000016970 - ID & DD Institutional Habilitation Facility, Capacity: 8

Raleigh Millington Home 1 - Memphis at 4240 Raleigh Millington Road, Memphis, TN 38128

Attached: L000000016971 - ID & DD Institutional Habilitation Facility, Capacity: 8

Raleigh Millington Home 2 - Memphis at 4254 Raleigh Millington Road, Memphis, TN 38128

Attached: L000000016972 - ID & DD Institutional Habilitation Facility, Capacity: 8

A program evaluation of each facility/service will be conducted prior to the license expiration date.

Your cooperation with the licensure program is appreciated. Please call on us if we may be of assistance to you.

Sincerely,

A handwritten signature in black ink, appearing to read "Lee Vestal". The signature is fluid and cursive, with a long horizontal stroke extending from the end.

Lee Vestal
Director of Risk Management and Licensure
Department of Intellectual and Developmental Disabilities

Affidavit

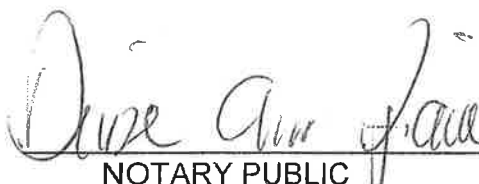
AFFIDAVITSTATE OF TennesseeCOUNTY OF WilliamsonGeorge Stevens

_____, being first duly sworn, says that he/she is the applicant named in this application or his/her/its lawful agent, that this project will be completed in accordance with the application, that the applicant has read the directions to this application, the Rules of the Health Services and Development Agency, and T.C.A. §68-11-1601, *et seq.*, and that the responses to this application or any other questions deemed appropriate by the Health Services and Development Agency are true and complete.


SIGNATURE/TITLE

Sworn to and subscribed before me this 12th day of February, 2018 a Notary
(Month) (Year)

Public in and for the County/State of Williamson/Tennessee


NOTARY PUBLIC

My commission expires 8-27, 2019
(Month/Day) (Year)



Supplemental #1 (Copy)

Open Arms Care
Corporation d/b/a
Shelby County #7

CN1802-010

**State of Tennessee****Health Services and Development Agency**

Andrew Jackson Building, 9th Floor, 502 Deaderick Street, Nashville, TN 37243

www.tn.gov/hsda Phone: 615-741-2364/Fax:615/532-9940

February 26, 2018

Michael Brent
Attorney
Bradley Arant Boult Cummings LLP
1600 Division Street, Suite 700
Nashville, TN 37203

RE: Certificate of Need Application CN1802-010
Open Arms Care Corporation d/b/a Shelby County #7 (Reese Road-West)

Dear Mr. Brent:

This will acknowledge our February 12, 2018 receipt of your application for a Certificate of Need for the relocation of an 8 licensed bed ICF/IID home from 4695 Allendale Drive, Memphis (Shelby County), TN to an unaddressed 1.2 acre lot between parcels with the street addresses of 7751 Reese Road and 7781 Reese Road, Memphis (Shelby County), TN 38133. The 1.2 acre lot is the western lot of a 2.4 acre parcel. The 2.4 acre lot site is described as Parcel 095400 00624 and Parcel 095400 00625 in the records of the Shelby County Tax Assessor.

Several items were found which need clarification or additional discussion. Please review the list of questions below and address them as indicated. The questions have been keyed to the application form for your convenience. I should emphasize that an application cannot be deemed complete and the review cycle begun until all questions have been answered and furnished to this office.

Please submit responses in triplicate by 12:00 noon, Tuesday February 27, 2017. If the supplemental information requested in this letter is not submitted by or before this time, then consideration of this application may be delayed into a later review cycle.

1. Section A, Executive Summary, Item 3.A. Overview, Page 2

What is the square footage and lot size of the current ICF/IID home located at 4695 Allendale Drive, Memphis?

Response: The home is 3,600 square feet and the lot is 18,200 square feet.

The applicant's \$3,370,000 project cost for a newly constructed 4,400 SF home in a non-duplex configuration with an annual lease cost of \$110,000 for 30 years (\$3,300,000) is noted. However, the estimated project cost of \$5,130,000 for Open Arms Care Corporation d/b/a Shelby County #4, CN1801-004 is at a higher project cost than the applicant, and pending applications Open Arms Care, CN1710-031 and Open Arms Care, CN1710-030 all with estimated project costs of \$3,370,000. It

appears the homes with a \$5,130,000 project cost will be constructed in a duplex configuration with each half consisting of 2,800 for a total of 5,600 SF resulting in annual lease cost of \$168,333 for 30 years (\$5,050,000). In addition, the homes with a \$3,370,000 project cost will be newly constructed 4,400 SF homes in a non-duplex configuration with an annual lease cost of \$110,000 for 30 years (\$3,300,000). Please clarify the reasons Open Arms is constructing two different types of homes in Shelby County that have different room configurations and different project costs.

Response: Open Arms is constructing two different types of homes in Shelby County with different room configurations and different project costs, due to the differences in the needs of the individuals served and TennCare's concern about containing ICF/IID costs, as the reimbursement rate for a combination of two 4-bed buildings in a "duplex" configuration, with private bedrooms, is higher than a single 8-bed home, with semi-private bedrooms. Care needs and behavior issues for some residents can make placement in one type of building more appropriate than the other type (due to the aging and acuity of certain residents driving a limited need for private bedrooms). Since the single building 8-bed homes are more cost-effective than the 8-bed homes consisting of two 4-bed buildings in a "duplex" configuration, the Applicant wanted to maintain the current economics of the Medicaid system as much as possible.

2. Section A, Executive Summary, Item 6.A. Type of Ownership, Page 9

Please provide a copy of the referenced purchase agreement between the current owner and FDG.

Response: Please see the purchase agreement attached hereto as Supplemental Attachment – Replacement Purchase Agreement.

3. Section A, Project Details, Item 5 Management Agreement, Page 7

Please provide a brief overview of Integra Resources, Inc. and their experience in managing an ICF/IID home.

Response: Integra Resources, LLC ("Integra") manages all of Open Arms' ICF/IID facilities, which were listed in Attachment A – 4 of the application. Integra is equally owned by SMI Group, LLC and Flatrock Investors, LLC. In turn, SMI Group, LLC is equally owned by George Stevens and Jeff Mastroleo, while Flatrock Investors, LLC is equally owned by Joseph Torrence and Richard Brown. The only relationship between Open Arms and Integra is the parties' existing contractual relationship for management of Open Arms' facilities. Further, Jeff Mastroleo, Joseph Torrence, Richard Brown, and George Stevens do not have ownership interests in, or governance positions with respect to, Open Arms.

George Stevens, Jeff Mastroleo, Joseph Torrence, and Richard Brown have directly applicable experience in areas including healthcare operations, affordable housing operations, financing and management, government service in the areas of mental health and affordable housing, and executive-level management of healthcare providers. Please see more information about Integra's principals attached hereto in Supplemental Attachment – Integra.

4. Section A, Project Details, Item 6.B (1) Plot Plan, Page 9

The plot plan is noted. However, please submit a supplemental plot plan that includes the labeling of the location of the proposed project and the labeling of the proposed ICF/IID that is slated to be constructed in the adjoining lot.

Response: Please see the requested plot plan attached hereto as Supplemental Attachment – Plot Plan.

5. Section B, Need Item E, Pages 21 and 24

The table representing Shelby County ICF/IID utilization on page 21 that answers the need question on page 24 is noted. However, please revise the table to reflect the years 2014-2016 and submit a replacement page 21.

In addition, please provide an address for Allendale Drive Home 1 and Allendale Drive Home 2.

Response: Please see R-21 in Supplemental Attachment – Replacement Pages.

6. Section B. Need Item F., Page 24

Please provide occupancy for the latest three years for the applicant.

Response: The occupancy for the facility was 99.5% in 2015, 2016 and 2017.

7. Section B, Economic Feasibility, Item A. Project Cost Chart, Page 26

The applicant notes on the top of page 27 the facility lease cost is \$3,370,000. However, the facility lease cost on the Project Cost Chart is \$3,300,000 in line B.1. Please clarify.

Response: Please see a R-27 attached hereto in Supplemental Attachment – Replacement Pages, for a corrected amount.

8. Section B, Economic Feasibility, Item A. Project Cost, Page 27

The list of components of development and construction costs in the amount of \$1,009,950 on page 27 is noted. Please clarify if all the listed items are included in the Lease Agreement.

Response: The list of components of development and construction costs in the amount of \$1,009,950 on page 27 includes all such needed items, including predominately new furnishings and furniture to be purchased for the new home (only a small amount of furnishings and furniture will be transferred from the existing home to the new home), which are accounted for in the lease amount.

Please clarify the reason there are two contingency funds, one for \$50,000 on page 27 and \$35,733 in the Project Cost Chart.

Response: The contingency funds of \$50,000 in the breakdown on page 27 is for potential cost overruns in the estimates of development and construction costs, while

the contingency funds of \$35,733 in the Project Cost Chart is for potential increases in the items identified on the Project Cost Chart.

9. Section B, Economic Feasibility, Item D. (Projected Data Chart)

Rent in the amount of \$244,444 in Year One is noted in the Projected Data Chart. However, the Option to Lease Agreement between FDG, LLC and Open Arms Care Corporation notes the annual rent will not exceed \$110,000 per year. Please clarify.

Response: Rent of \$244,444 in Year One is correct as noted in the Projected Data Chart and the language in the Option to Lease Agreement (the "Option") that average rent shall not exceed \$110,000 per year is also correct. This language in the Option refers to the average annual rent over the course of the lease's 30 year term as opposed to a guarantee with respect to any specific year's annual rent amount. The annual rent will be on a declining balance rather than an equal amortization over the 30 year term in order to correspond with FDG's anticipated financing, which will also be a declining balance as opposed to equal amortization.

The management fee of \$74,760 is noted in Year One and Year Two in the Projected Data Chart. However, the management fee in the management agreement reflects \$73,560.00 on page 10. Please clarify.

Response: Please find the revised management agreement attached hereto as Supplemental Attachment – Replacement Management Agreement.

10. Section B, Economic Feasibility, Item E (1) Average Gross Charge, Average Deduction from Operating Revenue, and Average Net Charge, Page 29

The chart on the top of page 29 is noted. However, it appears the chart is incorrect. Please use the project's average gross charge, average deduction from operating revenue, and average net charge using information from the Historical Data Chart for the previous year and current year and the Projected Data Chart for Year One and year Two. Please revise and submit a revised page 29 (R-29).

If the applicant revises the chart on page 29, please also revise the \$498.48 per patient day currently referenced in the responses for E. 2 and E.3 on page 29.

Response: Please see R-29 attached hereto in Supplemental Attachment – Replacement Pages.

11. Section B, Economic Feasibility, Item F (3) Capitalization Ratio, Page 31

The Net Operating Margin Ratio is noted. However, it appears the Projected Net Operating Margin Ratio for Year One and Year Two is .019 and .0069, respectively. Please verify.

Response: Based on the formula, Earnings Before Interest, Taxes and Depreciation / Net Operating Revenue, the Projected Net Operating Margin Ratio for Year One and Year Two is .019 and .007, respectively.

12. Proof of Publication

Please submit proof of publication with the application by attaching either the full page of the newspaper in which the notice appeared, with the ***mast and dateline intact***, or a publication affidavit from the newspaper that includes a copy of the publication.

Response: Please see the proof of publication attached hereto in Supplemental Attachment – Proof of Publication.

In accordance with Tennessee Code Annotated, §68-11-1607(c) (5), "...If an application is not deemed complete within sixty (60) days after written notification is given to the applicant by the agency staff that the application is deemed incomplete, the application shall be deemed void." **For this application, the sixtieth (60th) day after written Notification is Friday, April 20, 2018. If this application is not deemed complete by this date, the application will be deemed void.** Agency Rule 0720-10-.03(4) (d) (2) indicates that "Failure of the applicant to meet this deadline will result in the application being considered withdrawn and returned to the contact person. Resubmittal of the application must be accomplished in accordance with Rule 0720-10-.03 and requires an additional filing fee." Please note that supplemental information must be submitted timely for the application to be deemed complete prior to the beginning date of the review cycle which the applicant intends to enter, even if that time is less than the sixty (60) days allowed by the statute. The supplemental information must be submitted with the enclosed affidavit, which shall be executed and notarized; please attach the notarized affidavit to the supplemental information.

If all supplemental information is not received and the application officially deemed complete prior to the beginning of the next review cycle, then consideration of the application could be delayed into a later review cycle. The review cycle for each application shall begin on the first day of the month after the application has been deemed complete by the staff of the Health Services and Development Agency.

Any communication regarding projects under consideration by the Health Services and Development Agency shall be in accordance with T.C.A. § 68-11-1607(d):

- (1) No communications are permitted with the members of the agency once the Letter of Intent initiating the application process is filed with the agency. Communications between agency members and agency staff shall not be prohibited. Any communication received by an agency member from a person unrelated to the applicant or party opposing the application shall be reported to the Executive Director and a written summary of such communication shall be made part of the certificate of need file.
- (2) All communications between the contact person or legal counsel for the applicant and the Executive Director or agency staff after an application is deemed complete and placed in the review cycle are prohibited unless submitted in writing or confirmed in writing and made part of the certificate of need application file. Communications for the purposes of clarification of facts and issues that may arise after an application has been deemed complete and initiated by the Executive Director or agency staff are not prohibited.

Should you have any questions or require additional information, please do not hesitate to contact this office.

Sincerely,

Phillip M. Earhart
Health Services Development Examiner

PME/Enclosure

Supplemental Attachment – Integra

INTEGRA PRINCIPALS

George Stevens

George Stevens is Integra's Chief Executive Officer, overseeing the management of the company. George has more than thirty years' experience in medical delivery system development and mergers and acquisitions of health care and related businesses.

Joseph Torrence

Joe Torrence assists with the financial structuring of matters for Integra's clients. Joe has more than forty years of experience in the affordable housing field, beginning with a role in the Tennessee Housing Development Agency, which he followed up with an investment banking role related to affordable housing. Joe also has significant experience owning and operating affordable housing.

Richard Brown

Dick Brown oversees development and strategic planning for Integra. Former general counsel to the Tennessee Department of Mental Health and Retardation (now known as DIDD), Dick also has extensive experience in capital facilities financing and is also a former investment banker. Dick founded Oak Hill Advisors, a Nashville-based financial advisory firm providing services for capital market transactions, public / private partnerships and strategic development initiatives for clients in the government, health care, housing and real estate sectors and non-profit organizations.

Jeff Mastroleo

Jeff Mastroleo oversees financial planning and structuring for Integra and its clients. Managing Director of Healthcare Banking at Hancock Bank, Jeff has a record of profitability and prudent growth. He has been successful in establishing deep internal/external relationships; developing and managing to appropriate financial metrics; and, passionately pursuing excellence. Expertise includes commercial healthcare, municipal finance, and treasury/cash management. Previously he served as Senior Vice President of Healthcare for Community Bank, and before that was Senior Vice President, Healthcare Banking Group, of First Tennessee Bank.

**The Commercial Appeal
Affidavit of Publication**

**STATE OF TENNESSEE
COUNTY OF SHELBY**

Personally appeared before me, Glenn W. Edwards, a Notary Public, Helen Curl, of MEMPHIS PUBLISHING COMPANY, a corporation, publishers of The Commercial Appeal, morning and Sunday paper, published in Memphis, Tennessee, who makes oath in due form of law, that she is Legal Clerk of the said Memphis Publishing Company, and that the accompanying and hereto attached advertisement was published in the following editions of The Commercial Appeal, to-wit:

February 9, 2018

Helen Curl

Subscribed and sworn to before me this 12th day of February, 2018.

Glenn W. Edwards



My commission expires January 20, 2020.

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Substitute Trustee
10130 Perimeter Parkway,
Suite 400
Charlotte, NC 28216
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Fax: (704) 333-8156
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File No. 18-114601

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 **Legal Notices**

RATE OF NEED

The Health Services and Development Agency is in accordance with LCA § 68-11-10.

Health Services and Development Agency is a non-profit corporation qualified to file an application for a Certificate of Incorporation of an eight-person board of directors or trustees ("ICFAD"), management limited liability company.

707 Alameda Drive, Memphis, TN 38104

allocated to a parcel of approximately

1500 parcels with street addresses on
Road, Memphis, Tennessee, west of the
and Road. The 2.4-acre lot contains
400 6674 and Parcel 053400 60423
in Alameda. The estimated project co-
figuration is on or before February 1
of 1991. Michael D. Breen, Esq., who
is a partner in the law firm of
Gannings LLP, 1601 Division Street
7203, St. Louis, Missouri, is the
attorney for the project. He can be reached at (314) 435-0000.

Development Agency
Building, 8th Floor
Marick Street
Annexes JT243

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF DAVIDSON

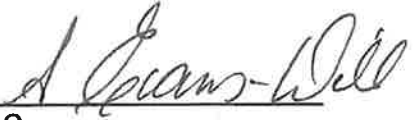
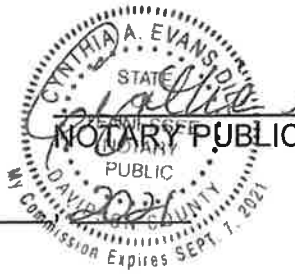
Michael D. Brent, being first duly sworn, says that I am the attorney for the manager of applicant named in this Certificate of Need application, or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

By: 

Michael D. Brent

Sworn to and subscribed before me, a Notary Public, this the 26th day of February, 2018, witness my hand at office in the County of Davidson, State of Tennessee.

My commission expires

Sept 7



State of Tennessee
Health Services and Development Agency

Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

www.tn.gov/hsda

Phone: 615-741-2364

Fax: 615-741-9884

2018 FEB 9

LETTER OF INTENT

The Publication of Intent is to be published in The Commercial Appeal, which is a newspaper of general circulation in Shelby County, Tennessee, on or before February 9, 2018, for one day.

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 et seq., and the Rules of the Health Services and Development Agency, that Open Arms Care Corporation, a Georgia non-profit corporation qualified to do business in Tennessee, intends to file an application for a Certificate of Need for the replacement and relocation of an eight-person Intermediate Care Facility for Individuals with Intellectual Disabilities ("ICF/IID"), managed by Integra Resources, LLC, a Tennessee limited liability company. The facility is currently located at 4695 Allendale Drive, Memphis (Shelby County), Tennessee, and will be relocated to a parcel of approximately 1.2 acres, which is the western half of a lot of approximately 2.4 acres, on the south side of Reese Road, which currently does not have a separate street address. The 2.4 acre lot is between parcels with street addresses of 7751 Reese Road and 7781 Reese Road, Memphis, Tennessee, west of the intersection of Reese Road and Kate Bond Road. The 2.4 acre lot consists of property identified as Parcel 095400 00624 and Parcel 095400 00625 in the records of the Shelby County Tax Assessor. The estimated project cost is \$3,370,000.00.

The anticipated filing date of the application is on or before February 14, 2018. The contact person for this project is Michael D. Brent, Esq., who may be reached at Bradley Arant Boult Cummings LLP, 1600 Division Street, Suite 700, Nashville, Tennessee 37203. Mr. Brent's telephone number is (615) 252-2361 and his e-mail address is mbrent@bradley.com.

(Signature)

Feb. 9, 2018

(Date)

mbrent@bradley.com

(E-mail Address)

The Letter of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, Tennessee 37243

The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

**RULES
OF
HEALTH SERVICES AND DEVELOPMENT AGENCY**

**CHAPTER 0720-11
CERTIFICATE OF NEED PROGRAM – GENERAL CRITERIA**

TABLE OF CONTENTS

0720-11-.01 General Criteria for Certificate of Need

0720-11-.01 GENERAL CRITERIA FOR CERTIFICATE OF NEED. The Agency will consider the following general criteria in determining whether an application for a certificate of need should be granted:

- (1) Need. The health care needed in the area to be served may be evaluated upon the following factors:
 - (a) The relationship of the proposal to any existing applicable plans;
 - (b) The population served by the proposal;
 - (c) The existing or certified services or institutions in the area;
 - (d) The reasonableness of the service area;
 - (e) The special needs of the service area population, including the accessibility to consumers, particularly women, racial and ethnic minorities, TennCare participants, and low-income groups;
 - (f) Comparison of utilization/occupancy trends and services offered by other area providers;
 - (g) The extent to which Medicare, Medicaid, TennCare, medically indigent, charity care patients and low income patients will be served by the project. In determining whether this criteria is met, the Agency shall consider how the applicant has assessed that providers of services which will operate in conjunction with the project will also meet these needs.
- (2) Economic Factors. The probability that the proposal can be economically accomplished and maintained may be evaluated upon the following factors:
 - (a) Whether adequate funds are available to the applicant to complete the project;
 - (b) The reasonableness of the proposed project costs;
 - (c) Anticipated revenue from the proposed project and the impact on existing patient charges;
 - (d) Participation in state/federal revenue programs;
 - (e) Alternatives considered; and
 - (f) The availability of less costly or more effective alternative methods of providing the benefits intended by the proposal.

(Rule 0720-11-.01, continued)

- (3) Quality. Whether the proposal will provide health care that meets appropriate quality standards may be evaluated upon the following factors:
 - (a) Whether the applicant commits to maintaining an actual payor mix that is comparable to the payor mix projected in its CON application, particularly as it relates to Medicare, TennCare/Medicaid, Charity Care, and the Medically Indigent;
 - (b) Whether the applicant commits to maintaining staffing comparable to the staffing chart presented in its CON application;
 - (c) Whether the applicant will obtain and maintain all applicable state licenses in good standing;
 - (d) Whether the applicant will obtain and maintain TennCare and Medicare certification(s), if participation in such programs was indicated in the application;
 - (e) Whether an existing healthcare institution applying for a CON has maintained substantial compliance with applicable federal and state regulation for the three years prior to the CON application. In the event of non-compliance, the nature of non-compliance and corrective action shall be considered;
 - (f) Whether an existing health care institution applying for a CON has been decertified within the prior three years. This provision shall not apply if a new, unrelated owner applies for a CON related to a previously decertified facility;
 - (g) Whether the applicant will participate, within 2 years of implementation of the project, in self-assessment and external peer assessment processes used by health care organizations to accurately assess their level of performance in relation to established standards and to implement ways to continuously improve.
 1. This may include accreditation by any organization approved by Centers for Medicare and Medicaid Services (CMS) and other nationally recognized programs. The Joint Commission or its successor, for example, would be acceptable if applicable. Other acceptable accrediting organizations may include, but are not limited to, the following:
 - (i) Those having the same accrediting standards as the licensed hospital of which it will be a department, for a Freestanding Emergency Department;
 - (ii) Accreditation Association for Ambulatory Health Care, and where applicable, American Association for Accreditation of Ambulatory Surgical Facilities, for Ambulatory Surgical Treatment Center projects;
 - (iii) Commission on Accreditation of Rehabilitation Facilities (CARF), for Comprehensive Inpatient Rehabilitation Services and Inpatient Psychiatric projects;
 - (iv) American Society of Therapeutic Radiation and Oncology (ASTRO), the American College of Radiology (ACR), the American College of Radiation Oncology (ACRO), National Cancer Institute (NCI), or a similar accrediting authority, for Megavoltage Radiation Therapy projects;
 - (v) American College of Radiology, for Positron Emission Tomography, Magnetic Resonance Imaging and Outpatient Diagnostic Center projects;

(Rule 0720-11-.01, continued)

- (vi) Community Health Accreditation Program, Inc., Accreditation Commission for Health Care, or another accrediting body with deeming authority for hospice services from CMS or state licensing survey, and/or other third party quality oversight organization, for Hospice projects;
 - (vii) Behavioral Health Care accreditation by the Joint Commission for Nonresidential Substitution Based Treatment Center, for Opiate Addiction projects;
 - (viii) American Society of Transplantation or Scientific Registry of Transplant Recipients, for Organ Transplant projects;
 - (ix) Joint Commission or another appropriate accrediting authority recognized by CMS, or other nationally recognized accrediting organization, for a Cardiac Catheterization project that is not required by law to be licensed by the Department of Health;
 - (x) Participation in the National Cardiovascular Data Registry, for any Cardiac Catheterization project;
 - (xi) Participation in the National Burn Repository, for Burn Unit projects;
 - (xii) Community Health Accreditation Program, Inc., Accreditation Commission for Health Care, and/or other accrediting body with deeming authority for home health services from CMS and participation in the Medicare Quality Initiatives, Outcome and Assessment Information Set, and Home Health Compare, or other nationally recognized accrediting organization, for Home Health projects; and
 - (xiii) Participation in the National Palliative Care Registry, for Hospice projects.
- (h) For Ambulatory Surgical Treatment Center projects, whether the applicant has estimated the number of physicians by specialty expected to utilize the facility, developed criteria to be used by the facility in extending surgical and anesthesia privileges to medical personnel, and documented the availability of appropriate and qualified staff that will provide ancillary support services, whether on- or off-site.
- (i) For Cardiac Catheterization projects:
 - 1. Whether the applicant has documented a plan to monitor the quality of its cardiac catheterization program, including but not limited to, program outcomes and efficiencies;
 - 2. Whether the applicant has agreed to cooperate with quality enhancement efforts sponsored or endorsed by the State of Tennessee, which may be developed per Policy Recommendation; and
 - 3. Whether the applicant will staff and maintain at least one cardiologist who has performed 75 cases annually averaged over the previous 5 years (for an adult program), and 50 cases annually averaged over the previous 5 years (for a pediatric program).
- (j) For Open Heart projects:

(Rule 0720-11-.01, continued)

1. Whether the applicant will staff with the number of cardiac surgeons who will perform the volume of cases consistent with the State Health Plan (annual average of the previous 2 years), and whether the applicant will maintain this volume in the future;
 2. Whether the applicant will staff and maintain at least one surgeon with 5 years of experience;
 3. Whether the applicant will participate in a data reporting, quality improvement, outcome monitoring, and peer review system that benchmarks outcomes based on national norms, with such a system providing for peer review among professionals practicing in facilities and programs other than the applicant hospital (demonstrated active participation in the STS National Database is expected and shall be considered evidence of meeting this standard);
- (k) For Comprehensive Inpatient Rehabilitation Services projects, whether the applicant will have a board-certified physiatrist on staff (preferred);
- (l) For Home Health projects, whether the applicant has documented its existing or proposed plan for quality data reporting, quality improvement, and an outcome and process monitoring system;
- (m) For Hospice projects, whether the applicant has documented its existing or proposed plan for quality data reporting, quality improvement, and an outcome and process monitoring system;
- (n) For Megavoltage Radiation Therapy projects, whether the applicant has demonstrated that it will meet the staffing and quality assurance requirements of the American Society of Therapeutic Radiation and Oncology (ASTRO), the American College of Radiology (ACR), the American College of Radiation Oncology (ACRO), National Cancer Institute (NCI), or a similar accrediting authority;
- (o) For Neonatal Intensive Care Unit projects, whether the applicant has documented its existing or proposed plan for data reporting, quality improvement, and outcome and process monitoring system; whether the applicant has documented the intention and ability to comply with the staffing guidelines and qualifications set forth by the Tennessee Perinatal Care System Guidelines for Regionalization, Hospital Care Levels, Staffing and Facilities; and whether the applicant will participate in the Tennessee Initiative for Perinatal Quality Care (TIPQC);
- (p) For Nursing Home projects, whether the applicant has documented its existing or proposed plan for data reporting, quality improvement, and outcome and process monitoring systems, including in particular details on its Quality Assurance and Performance Improvement program. As an alternative to the provision of third party accreditation information, applicants may provide information on any other state, federal, or national quality improvement initiatives;
- (q) For Inpatient Psychiatric projects:
1. Whether the applicant has demonstrated appropriate accommodations for patients (e.g., for seclusion/restraint of patients who present management problems and children who need quiet space; proper sleeping and bathing arrangements for all patients), adequate staffing (i.e., that each unit will be staffed with at least two direct patient care staff, one of which shall be a nurse, at all

(Rule 0720-11-.01, continued)

- times), and how the proposed staffing plan will lead to quality care of the patient population served by the project;
 2. Whether the applicant has documented its existing or proposed plan for data reporting, quality improvement, and outcome and process monitoring system; and
 3. Whether an applicant that owns or administers other psychiatric facilities has provided information on satisfactory surveys and quality improvement programs at those facilities.
- (r) For Freestanding Emergency Department projects, whether the applicant has demonstrated that it will satisfy and maintain compliance with standards in the State Health Plan;
 - (s) For Organ Transplant projects, whether the applicant has demonstrated that it will satisfy and maintain compliance with standards in the State Health Plan; and
 - (t) For Relocation and/or Replacement of Health Care Institution projects:
 1. For hospital projects, Acute Care Bed Need Services measures are applicable; and
 2. For all other healthcare institutions, applicable facility and/or service specific measures are applicable.
 - (u) For every CON issued on or after the effective date of this rule, reporting shall be made to the Health Services and Development Agency each year on the anniversary date of implementation of the CON, on forms prescribed by the Agency. Such reporting shall include an assessment of each applicable volume and quality standard and shall include results of any surveys or disciplinary actions by state licensing agencies, payors, CMS, and any self-assessment and external peer assessment processes in which the applicant participates or participated within the year, which are relevant to the health care institution or service authorized by the certificate of need. The existence and results of any remedial action, including any plan of correction, shall also be provided.
 - (v) HSDA will notify the applicant and any applicable licensing agency if any volume or quality measure has not been met.
 - (w) Within one month of notification the applicant must submit a corrective action plan and must report on the progress of the plan within one year of that submission.
- (4) Contribution to the Orderly Development of Adequate and Effective Healthcare Facilities and/or Services. The contribution which the proposed project will make to the orderly development of an adequate and effective health care system may be evaluated upon the following factors:
 - (a) The relationship of the proposal to the existing health care system (for example: transfer agreements, contractual agreements for health services, the applicant's proposed TennCare participation, affiliation of the project with health professional schools);
 - (b) The positive or negative effects attributed to duplication or competition; and

(Rule 0720-11-.01, continued)

- (c) The availability and accessibility of human resources required by the proposal, including consumers and related providers.
- (5) Applications for Change of Site. When considering a certificate of need application which is limited to a request for a change of site for a proposed new health care institution, The Agency may consider, in addition to the foregoing factors, the following factors:
 - (a) Need. The applicant should show the proposed new site will serve the health care needs in the area to be served at least as well as the original site. The applicant should show that there is some significant legal, financial, or practical need to change to the proposed new site.
 - (b) Economic factors. The applicant should show that the proposed new site would be at least as economically beneficial to the population to be served as the original site.
 - (c) Quality of Health Care to be provided. The applicant should show the quality of health care to be provided will be served at least as well as the original site.
 - (d) Contribution to the orderly development of health care facilities and/or services. The applicant should address any potential delays that would be caused by the proposed change of site, and show that any such delays are outweighed by the benefit that will be gained from the change of site by the population to be served.
- (6) Certificate of need conditions. In accordance with T.C.A. § 68-11-1609, The Agency, in its discretion, may place such conditions upon a certificate of need it deems appropriate and enforceable to meet the applicable criteria as defined in statute and in these rules.

Authority: T.C.A. §§ 4-5-202, 4-5-208, 68-11-1605, 68-11-1609, and 2016 Tenn. Pub. Acts Ch. 1043.

Administrative History: Original rule filed August 31, 2005; effective November 14, 2005. Emergency rule filed May 31, 2017; effective through November 27, 2017.



**Department of
Intellectual &
Developmental Disabilities**

MEMORANDUM

TO: Melanie Hill, Executive Director, Health Services and Development Agency

FROM: Theresa Sloan, Assistant Commissioner and General Counsel;
Tennessee Department of Intellectual and Developmental Disabilities

DATE: March 20, 2018

RE: Review and Analysis of Certificate of Need Application, Open Arms Care Corporation CN1802-010

Pursuant to, and in accordance with, Tennessee Code Annotated (TCA) § 68-11-1608 and Rules of the Health Services and Development Agency including the Criteria and Standards for Certificate of Need (2000 Edition, Tennessee's Health Guidelines for Growth, prepared by the Health Planning Commission)[hereinafter Guidelines for Growth], staff of the Tennessee Department of Intellectual and Developmental Disabilities (DIDD), the licensing agency, have reviewed and analyzed the above referenced application for a Certificate of Need.

Attached is the DIDD report. At a minimum, and as noted in TCA § 68-11-1608, the report provides:

- (1) Verification of application-submitted information;
- (2) Documentation or source for data;
- (3) A review of the applicant's participation or non-participation in Tennessee's Medicaid program, TennCare or its successor;
- (4) Analyses of the impact of a proposed project on the utilization of existing providers and the financial consequences to existing providers from any loss of utilization that would result from the proposed project;
- (5) Specific determinations as to whether a proposed project is consistent with the state health plan;
- (6) Further studies and inquiries necessary to evaluate the application pursuant to the rules of the Agency.

If there are any questions, please contact me at (615) 253-6811.

cc:

Debra K. Payne, Commissioner, DIDD

Jordan Allen, Deputy Commissioner, DIDD

C.J. McMorran, WTR Director, DIDD

Lee Vestal, Director of Risk Management and Licensure, DIDD

CON Application #CN 1802-010

REVIEW AND ANALYSIS CERTIFICATE OF NEED APPLICATION # CN1802-010

Opening Remarks on the Project

Pursuant to, and in accordance with, Tennessee Code Annotated (TCA) § 68-11-1608 and Rules of the Health Services and Development Agency including the Criteria and Standards for Certificate of Need (2000 Edition, Tennessee's Health Guidelines for Growth, prepared by the Health Planning Commission) [hereinafter Guidelines for Growth], staff of the Tennessee Department of Intellectual and Developmental Disabilities (DIDD), the licensing agency, have reviewed and analyzed the application for a Certificate of Need submitted by Michael D. Brent (Attorney for Open Arms Care Corporation) on behalf of Open Arms Care Corporation to relocate an eight bed Intermediate Care Facility for individuals with Intellectual Disabilities (ICF/IID) from 4695 Allendale Drive, Memphis Tennessee 38127 to a lot of approximately 1.2 acres, which does not currently have a separate street address, located at the intersection of Reese Road and Kate Bond Road, Memphis, TN 38133. The report has (3) parts:

- A. Summary of Project
- B. Analysis – in four (4) parts:

<u>Need</u>	<u>Economic Feasibility</u>	<u>Contribution to the Orderly Development of Health Care</u>	<u>Health Care that Meets Appropriate Quality Standards</u>
<p>Evaluated by the following general factors:</p> <ul style="list-style-type: none"> A. Relationships to any existing applicable plans; B. Population to be served; C. Existing or Certified Services or institutions; D. Reasonableness of the service area; E. Special needs of the service area population (particularly women, racial and ethnic minorities, and low-income groups); F. Comparison of utilization/ occupancy trends and services offered by other area providers; G. Extent to which Medicare, Medicaid, and medically indigent patients will be served; and H. Additional factors specified in the Tennessee's Health Guidelines for Growth publication for this type of facility. 	<p>Evaluated by the following general factors:</p> <ul style="list-style-type: none"> A. Whether adequate funds are available to complete the project; B. Reasonableness of costs; C. Anticipated revenue and the impact on existing patient charges; D. Participation in state/federal revenue programs; E. Alternatives considered; F. Availability of less costly or more effective alternative methods; and G. Additional factors specified in the Tennessee's Health Guidelines for Growth publication. 	<p>Evaluated by the following general factors:</p> <ul style="list-style-type: none"> A. Relationship to the existing health care system (i.e. transfer agreements, contractual agreements for health services, and affiliation of the project with health professional schools); B. Positive or negative effects attributed to duplication or competition; C. Availability and accessibility of human resources required; D. Quality of the project in relation to applicable governmental or professional standards; and E. Additional factors specified in the Tennessee's Health Guidelines for Growth publications. 	<p>Evaluated by the following general factors:</p>

C. Conclusions

A: Summary of Project

Submission of Application

Michael D. Brent (Attorney for Open Arms Care Corporation) on behalf of Open Arms Care Corporation to relocate an eight bed Intermediate Care Facility for individuals with Intellectual Disabilities (ICF/IID) from 4695 Allendale Drive, Memphis Tennessee 38127 to a lot of approximately 1.2 acres, which does not currently have a separate street address, located at the intersection of Reese Road and Kate Bond Road, Memphis, TN 38133. This relocation is necessary to provide a new structure, the current home is more than 30 years old, and the new home, a one-story, fully accessible family home of approximately 4,400 square will also provide more space for the persons and their specialized equipment than what is currently available at the Allendale Drive home.

The Applicant Profile indicates that the type of institution is "Intellectual Disability Institutional Habilitation Facility (ICF/IDD)" (Item 7.G.) and the purpose of review is "Change of Location" (Item 8.H.)

Applicant Profile, Ownership, Management, and Licensure

As previously noted, the Applicant Profile indicates that the type of institution is "Intellectual Disability Institutional Habilitation Facility (ICF/IID)" (Item 7.G.) and the purpose of review is Change of Location (item 8.H). The Applicant Profile also shows that the Owner of the Facility, Agency or Institution is Open Arms Care Corporation. Open Arms Care Corporation will operate the facility in all aspects. The Applicant Profile shows the bed complement as noted previously: eight ICF/IID beds all of which are the number of proposed beds and beds at completion since this project is for the relocation of a current eight bed Residential Habilitation Facility.

In Section B Project Description the Applicant explains and details the project as being a relocation of an eight bed Residential Habilitation Home with the existing management staff managing the new home. Open Arms Care Corporation has financial resources to open this home as shown in the Open Arms Care Corporation Financial Statements with Supplemental Financial Information.

Since the Applicant is applying for a relocation of a current Residential Habilitation Facility, there is a current Intellectual Disability Residential Habilitation license issued by DIDD. If the project is approved, the current license would be surrendered to DIDD and a new license for an "Intellectual Disability Institutional Habilitation Facility (ICF/IID)" would be issued by DIDD.

Scope of Proposed Project

As noted, the Applicant seeks to relocate a current eight bed ICF/IID Residential Habilitation Home. The new facility will serve individuals with severe Intellectual Disabilities who require institutional level of care. These individuals have multiple special needs including health care, assistance with hygiene, dietary services, physical therapy, and activities of daily living. Open Arms Care is a private, not-for-profit Corporation which currently operates ICF/IID services licensed by and under contract with DIDD.

Operations

The proposed service area identified by the applicant is Shelby County in West Tennessee.

The need for the relocation of the eight bed ICF/IID home comes as a result of the need to relocate eight individuals who are currently living in a thirty year old institutional habilitation facility. The eight individuals who live at the Allendale Drive home have increased in acuity level as they age as a result more space is needed for the residents and their specialized equipment than what the current home can provide. Also, the neighborhood where the current home is located has changed over the past thirty years to a more commercial based area and is no longer appropriate for this type of residential home. Therefore, it has been determined the best way to allow these individuals to continue to live together with the space that they need in an appropriate neighborhood is to construct a new eight bed residential habilitation facility and move the individuals into this new location.

Project costs are estimated at \$1,130,000 for construction of a new facility as described above. No major medical equipment is contained within this project. The projected date of completion of the project and the initiation of services is March 2019.

B: Analysis

The Guidelines for Growth include a population-based estimate of the total need for ICF/IID facilities of 0.032 percent of the general population. This estimate is based on the estimate for all Intellectual Disabilities of 1 percent of the general population. Of the 1 percent estimate, 3.2 percent are estimated to meet level 1 criteria and be appropriate for ICF/IID services. The applicant identified the proposed service area for this project as Shelby County as stated above, since that is where this relocated eight bed ICF/IID facility will be located. According to population estimates from the Tennessee Department of Health, the 2017 population estimate for the service area is 964,804. This project involves the

relocation of eight ICF/IID beds from one location in Shelby County to another location within the same county, therefore, this request does not result in an increase or decrease in the number of beds in the service area. Thus the number of ICF/IID beds for the service area remain the same making the Guidelines for Growth non applicable in this situation.

Economic Feasibility

The anticipated construction cost for this project is \$1,580,000 for relocation of the current facility as described above. Based on information submitted by the applicant a commercial loan will be used to fund the construction of this project. This project will be financed through a commercial loan that will be repaid using the applicant's lease payments. The project involves the relocation of a residential habilitation home located from 4695 Allendale Drive, Memphis Tennessee 38127 to a lot of approximately 1.2 acres, which does not currently have a separate street address, located at the intersection of Reese Road and Kate Bond Road, Memphis, TN 38133.. The newly constructed home will be a constructed as a one-story single family home, approximately 4,400 square feet, with four bedrooms, combination living/dining room, kitchen, laundry, office and associated storage areas. The home will have two large, fully accessible bathrooms, one half bath, and a residential sprinkler system. Open Arms Care Corporation projects an occupancy rate of 100% for this project for both year 1 and year 2, since the beds are currently filled and this is simply a relocation of those beds. Occupancy rates for all other ICF/IID homes in Shelby County have been between 99% and 100% the past three years. Based on this information, the projected occupancy rate appears to be reasonable. Net operating revenue is anticipated of \$1,788,661 the first year of operation and \$1,774,764 the second year of operation. Applicant anticipates that 96% of the facilities revenue will be from Medicaid with the other 4% coming from the individuals SSI income. The average gross charge is expected to be \$614.66 per day the first year of operation and \$612.41 per day the second year. The per diem rates for ICF/IID facilities are set by the State of Tennessee Comptroller's Office, based on the "Intermediate Care Facility Statement of Reimbursable Cost" form submitted annually by ICF/IID providers.

Contribution to the Orderly Development of Healthcare

Open Arms Care Corporation, plans to fill the eight ICF/IID beds associated with this project by relocating eight residents from a current eight person ICF/IID operated by Open Arms Care Corporation. Since this is a relocation of eight current ICF/IID beds in Shelby County, this proposal should have zero impact on other providers. Open Arms Care Corporation will provide complete support services for residents of this facility based on their individual care plans. Open Arms Care Corporation has working relationships with all area hospitals.

The proposed staffing pattern reported by the applicant provides for: 14.86 FTE hours for Direct Support Professionals and 2.23 FTE for nursing staff. This appears to be a sufficient number of nurses and direct support professionals to staff the eight bed home.

This Open Arms Care, ICF/IID facility would be licensed by the Tennessee Department of Intellectual and Developmental Disabilities as an Intellectual Disability Institutional Habilitation Facility (ICF/IID). The applicant already operates Intellectual Disability Institutional Habilitation Facilities (ICF/IIDs) and, therefore, is familiar with the licensing requirements for this type of facility.

Health Care that Meets Appropriate Quality Standards

Open Arms Care Corporation is a long-standing provider in Tennessee of ICF/IID services. During the years of operation of Open Arms Care Corporation, in Tennessee, it has continued to meet the Quality Standards of ICF/IID services as evidenced by their ICF survey. The ICF survey reflects that Open Arms Care Corporation is operating to the standards established by the Centers for Medicare and Medicaid Services. Open Arms Care Corporation is also in good standing with DIDD's licensure. Open Arms Care Corporation through their contract for ICF/IID services with TennCare, must also adhere to DIDD's Protection from Harm system in reporting all allegations of abuse, neglect, and exploitation to DIDD and is meeting these standards and requirements.

C: CONCLUSIONS:

As noted above, the Department of Intellectual and Developmental Disabilities (DIDD) is the agency responsible for licensing Intellectual Disabilities Institutional Habilitation Facilities, which provide ICF/IID service and is also the department that is responsible for the provision of services for individuals with intellectual disabilities. Therefore, DIDD as the experts in the field of intellectual and developmental disabilities has reached the following conclusion regarding this Open Arms Care Corporation Certificate of Need application for relocation of an eight bed ICF/IID facility in Shelby County to serve eight individuals being relocated from another Open Arms Care Corporation ICF/IID facility in Shelby County.

The Need for the approval of an eight bed ICF/IID operated by Open Arms Care Corporation is supported by the Guidelines for Growth population-based formula. The cost of the project appears to be reasonable, and provide more space and the potential for greater community integration for the eight persons relocating to this home. The project can be completed in a timely manner. Adequate funding is available and projected utilization and revenue should be sufficient to ensure the economic feasibility of the project.

This project would contribute to the orderly development of healthcare by allowing the eight individuals to relocate to a home with more space and potential for greater community integration. Open Arms Care Corporation also meets the fourth criteria for approval of their CON application, Health Care that Meets Appropriate Quality Standards. Open Arms Care Corporation has demonstrated during their time as a provider of ICF/IID services that the services provided

have meet all applicable quality standards of both state and federal regulations.

In conclusion, the Department of Intellectual and Developmental Disabilities supports approval of Open Arms Care Corporation Certificate of Need application for the relocation of an eight bed ICF/IID in Shelby County Tennessee.